United States
Department of
Agriculture

Agricultural Adjustment Act of 1985

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Summary of the
Agricultural Adjustment Act of 1985

In 1985, the law that currently governs the agricultural commodity programs will expire, as will the authorities for agricultural research and associated programs and foreign food aid programs. If no new legislation is enacted this year, the research and food aid programs will cease to operate after 1985. Price and income support programs for agricultural producers, however, will be governed by non-expiring "permanent" legislation that was enacted in the 1930's and 1940's.

The Agricultural Adjustment Act of 1985 (AAA of 1985) is designed to chart a new course for agriculture--a path that is market-oriented yet provides a compassionate transition period until the sector makes the necessary adjustments. It provides a more long-term, consistent agricultural policy that ebbs and flows with the market and allows adjustments to occur because the farmer can respond to the marketplace rather than to government program provisions. The AAA of 1985 also permits the U.S. farmer to challenge his competitors in world markets rather than aiding and abeting them by accepting a disproportionate share of the adjustments to world market developments. It also addresses the difficult and important issues such as soil and water erosion and agricultural credit in a direct but reasonable manner.

<u>Basic Objectives of the AAA of 1985</u>

In developing the Agricultural Adjustment Act of 1985, the Administration has been guided by the need to achieve certain objectives in any legislation. If these objectives can be met the U.S. agricultural sector will continue to be the most efficient, productive and competitive industry in this country and, indeed, in the world.

- <u>Long Term Agricultural Policy</u>. The AAA of 1985 focuses on creating a policy environment that will be relatively stable and predictable, so that farmers can make realistic investment and production decisions. This contrasts with the current environment, in which agricultural policy responds to short-term problems without providing any effective long-term solutions.

- <u>Market Orientation</u>. Price and income support levels in the AAA will be tied to a moving average of past market prices. Farmers will then have an opportunity to respond to market signals, rather than producing in response to the artificial support rates set by Government programs.

- <u>Enhance U.S. Competitiveness</u>. In recent years, the world recession, the high value of the dollar and problems of debtor nations have made it very difficult for U.S. agricultural commodities to compete in the international marketplace. The rigid and high levels of U.S. price and income supports have

aggravated this problem. The Administration's proposed Farm Bill will allow U.S. producers, who are extremely efficient, to better compete in world markets rather than withdrawing from the market as a result of inflexible price supports and increasing acreage reduction programs.

- o <u>Orderly Transition</u>. The bill provides for a five-year transition period from current programs to more market-oriented programs. This will allow farmers to assess their operations and decide how to manage their resources most effectively in the new environment.

- o <u>Equity and Consistency</u>. Under current legislation, the program for each agricultural commodity bears little relationship to the others. The Administration's proposal would put producers on an equal footing by providing the same relative level of income and price support after the five-year transition period. In addition, the legislation integrates the objectives of the commodity programs with other agricultural programs and policies.

- o <u>Budget Restraint</u>. In a time of large budget deficits, high interest rates, and a strong dollar, it is imperative that we exercise fiscal restraint and remove the entitlement nature of agricultural programs and policies. This legislation recognizes the need to impose finite cost control over our farm programs. The AAA is estimated to cost less than half as much as a continuation of current programs over the FY 1987-91 period.

Major Provisions of Agricultural Adjustment Act of 1985

Domestic Commodity Programs

For wheat, feedgrains, cotton and rice, producers will continue to be eligible for government loans and income supports through the use of target prices which provide deficiency payments to producers. The loan level would be set each year at 75 percent of the previous three-year average of market prices. Target prices would be set at 100 percent of this same price average in 1986; the percentage would then decline each year until it reaches 75 percent for the 1991 and succeeding crops.

To be eligible for loans and deficiency payments, producers would be required to participate in voluntary acreage reduction programs in 1986, 1987, and 1988. For the 1989 and succeeding crops, authority for acreage reduction and other supply control programs would be eliminated.

A portion of CCC inventories of wheat and feed grains would be maintained to meet domestic and international humanitarian needs. Authority for the farmer-owned reserve currently in place would cease, as would the authorities for several special purpose emergency reserves now operated by the Government.

The soybean program would continue to rely solely on loans, but the loan rate would be determined in the same manner as for wheat, feed grains, cotton and rice. No acreage reduction program would be available for soybeans.

The current dairy purchase program would continue to operate in fiscal years 1986 and 1987, with the support price geared to expected Government purchases. Then, beginning in fiscal year 1988, the program would be converted to a direct payment program with the target price calculated as a declining percentage of the market prices for the preceding three years, in the same manner as the other commodities.

Peanuts are currently produced under a restrictive quota system that guarantees a high price for peanuts produced for domestic edible use, and a much lower price for non-quota peanuts that are exported or crushed for oil. The Administration's proposal would phase out this system. Loan rates would be set at 75 percent of the three-year average price and would be available to all producers. Those who have quotas would receive a direct payment based on a declining percentage of the market prices for the preceding three years.

Beginning with the 1986 crop year, sugar producers would be eligible for direct payments while processors would continue to be eligible for price support loans.

Loans and direct payments made to producers under this legislation will be targeted to medium and small-sized farms. Beginning in 1986, loans made on all program commodities will be nonrecourse up to a crop year limit of $200,000 per producer. This means that the commodities may be signed over to the government in full satisfaction of a producer's loan obligation. Amounts above $200,000, however, would be recourse loans. A producer would be required to repay the full value of the loan plus interest, just as he would for any commercial transaction.

All direct payments made for commodities covered by this bill will be limited to $20,000 per person in 1986, $15,000 per person in 1987, and $10,000 per person in 1988 and succeeding years.

Agricultural Trade and Export Expansion

A major component of the AAA of 1985 is the establishment of a formal and explicit agricultural trade policy which is consistent with our domestic agricultural policy. The major provisions provide a commitment on the part of the U.S. Government to promote open access

in world markets for U.S. agricultural exports. The provisions firmly establish the U.S. as a reliable supplier of agricultural commodities by continuing the elimination of the use of agricultural embargoes on a selective basis and by guaranteeing sanctity of export contracts.

Additionally, the provisions seek expanded trade by negotiating with our key trading partners to implement programs which reduce restrictive trade practices. The Secretary of Agriculture and the U.S. Trade Representative are to report to Congress on the extent and impact of trade barriers on agricultural exports. In the event that negotiations to remove or reduce barriers, including export subsidies, are not progressing satisfactorily, the Secretary of Agriculture and the U.S. Trade Representative are to submit a report recommending what actions will be taken to offset the effects of such barriers.

Export expansion programs are continued with the GSM-102 Export Credit Guarantee program set at a level consistent with the credit needs of countries which are importing U.S. agricultural products and meet creditworthiness requirements. The P.L. 480 foreign food aid programs are reauthorized.

Agricultural Research, Teaching and Extension.

The major change proposed is a greater emphasis in research and extension on increasing the efficiency and profitability of the farm enterprise rather than just its productivity. The current research system is efficient and flexible enough to meet anticipated needs, as witnessed by the emerging use of biotechnology.

Resource Conservation

The resource conservation portion of the Farm Bill contains strong "sodbuster" provisions. Under these provisions any operator who begins tilling erodible soils that had not been in production for the past 10 years would be ineligible to obtain any Federal farm program benefits. The only exception would be for producers who follow a plan approved by the local conservation district.

Agricultural Credit.

The AAA of 1985 shifts all Farmers Home Administration (FmHA) loans for new borrowers from direct to guaranteed lending beginning in fiscal year 1986. It further provides for a phasing out of existing direct operating loans by fiscal year 1990. In addition, the multi-peril all risk crop insurance is substituted for the FmHA emergency lending program.

AGRICULTURAL ADJUSTMENT ACT OF 1985

SECTION-BY-SECTION ANALYSIS

TITLE I - Agricultural Trade and Export Expansion

Statement of Policy

Section 101 provides that it is the policy of the United States (1) to promote free trade in agriculture through negotiations with key United States trading partners to remove agricultural trade restrictions, and (2) as part of that policy, remove U.S. restrictions on agricultural imports as part of a program of mutual opening by other major agricultural trading nations of their agricultural markets.

Restrictions on the Exportation of Agricultural Goods

Section 102 provides that it is the policy of the United States to encourage the export of agricultural commodities and products and not to restrict the exportation of such commodities and products except under the most compelling conditions. Safeguards and limitations on restrictive actions are provided by section 812 of the Agricultural Act of 1970, section 1002 of the Food and Agriculture Act of 1977, and section 1204 of the Agriculture and Food Act of 1981.

Trade Negotiations

Section 103 makes two substantive amendments to the Trade Act of 1974. First, it amends section 181 of that Act, as added by section 303 of the Trade and Tariff Act of 1984, to require the United States Trade Representative to furnish a separate version of the report required under section 181 to the Committee on Agriculture of the House of Representatives and to the Committee on Agriculture, Nutrition and Forestry of the Senate. This version would consist of the analysis for agricultural trade. Second, this section would add a new section 182 to the Trade Act of 1974 requiring the United States Trade Representative, together with the Secretary of Agriculture, to seek to eliminate the major barriers and distortions for United States agricultural exports. If negotiations with other countries are not proceeding satisfactorily by July 1, 1986, the United States Trade Representative and the Secretary must submit a report to Congress indicating what actions they will take to offset the effects of those barriers or distortions and what actions they will take to secure adequate progress in the negotiations. The new section 182 would also require the President to recommend a plan to Congress to phase out the United States' major barriers to agricultural imports by September 30, 1990, if other major agricultural trading countries agree to take comparable action.

Export Promotion Programs

Section 104 directs the Commodity Credit Corporation to take into account potential purchasers' credit needs and creditworthiness and the extent to which guarantees would be effective in improving the competitive position of United States agricultural exports in world markets,

whenever the Commodity Credit Corporation makes available guarantees of credit extended on terms of up to 3 years for export credit sales of United States agricultural commodities or their products. Currently, the Commodity Credit Corporation makes such guarantees available under its Export Credit Guarantee Program (GSM-102) (7 CFR Part 1493).

Public Law 480 Amendments

Section 105 amends section 409 of Public Law 480 to extend through September 30, 2000, the authority to finance sales under Title I and to enter into programs of assistance under Title II of Public Law 480.

Market Development

Section 106(a) recognizes the vital importance to the economic well-being of the Nation of effective efforts to develop foreign markets for United States agricultural commodities and directs the Secretary of Agriculture to continue to assist producers, processors, distributors, and exporters to maintain and to expand foreign markets for United States agricultural commodities. That assistance could include a continuation of the program of "cooperator agreements" between the Department of Agriculture and nonprofit agricultural trade organizations.

Section 106(b) requires the Secretary of Agriculture to conduct a study of the Department's current foreign market development activities

and to submit a report thereon to Congress within one year from the date of enactment of this Act.

TITLE II - Wheat

Loan Program

Section 201(a) provides that the Secretary shall make loans available to producers of each of the 1986 and subsequent crops of wheat who pledge their production as security for the loan.

Section 201(b) provides that the loans will be made available at the basic loan rate for each class of each crop of wheat pledged as security for the loan adjusted to reflect for differences in quality and location. The basic loan rate for each class of each crop of wheat is equal to 75 percent of the national average market price received by producers for that class during the marketing years for the three immediately preceding crops of wheat as determined by the Secretary.

Section 201(c) provides that a loan shall be repaid, together with accrued interest, within nine months after the month in which the loan application is made.

Payment Program

Section 202(a) provides that the Secretary shall make payments available to producers of each class of each of the 1986 and subsequent

crops of wheat. The payments are to be computed by multiplying (1) the payment rate established for each class of the crop by (2) the acreage planted to each class of the crop on a farm by (3) the farm's payment yield for the crop.

Section 202(b) provides that the payment rate for each class of each crop of wheat is the amount by which the national average market price received by producers of that class of wheat during the marketing year for that crop is less than (1) the national average market price received by producers of that class for each of the three marketing years immediately preceding the year for which the payment is made, multiplied by (2) 100 percent for the 1986 crop, 95 percent for the 1987 crop, 90 percent for the 1988 crop, 85 percent for the 1989 crop, 80 percent for the 1990 crop, and 75 percent for each of the 1991 and subsequent crops.

Section 202(c) provides that a farm's payment yield for each crop of wheat shall be based upon the actual yields per harvested acre on the farm for the immediately three preceding crops of wheat. The actual yields shall be adjusted by the Secretary for abnormal yields in any year resulting from a natural disaster or other conditions beyond the control of producers. If any of the three preceding crops of wheat was not produced on the farm, the farm's payment yield shall be determined taking into consideration the yields of comparable farms in the surrounding area and such other factors as the Secretary determines will produce a fair and equitable yield.

Acreage Reduction Program

Section 203(a) provides that the Secretary shall establish an acreage reduction program for each of the 1986, 1987, and 1988 crops of wheat. Under the program, the acreage of wheat planted for harvest on any farm is limited to the farm acreage base established for wheat for the farm reduced by 15 percent for the 1986 crop, 10 percent for the 1987 crop, and 5 percent for the 1988 crop. A producer who produces wheat in excess of the permitted wheat acreage for the farm shall be ineligible for loans and payments with respect to that farm for that crop of wheat. The farm acreage base for any crop of wheat shall be the average acreage of wheat planted for harvest on the farm in the three crop years immediately preceding the year prior to the year for which the determination is made. The farm acreage base may be adjusted to reflect established crop rotation practices and to reflect such other factors as the Secretary determines should be considered in determining a fair and equitable base.

Section 203(b) provides that, when an acreage reduction program is in effect, producers shall devote a specified number of acres on the farm to conservation uses. The number of acres on the farm required to be devoted to conservation uses is determined by dividing (1) the product obtained by multiplying the number of acres required to be withdrawn from the production of wheat times the number of acres actually planted to wheat, by (2) the number of acres of wheat authorized to be planted to wheat under the acreage limitation in effect for the crop. In determining the amount of land which is required to be devoted to

conservation uses under an acreage reduction program involving land that has been farmed using summer fallow practices, the Secretary is required to consider the effects of soil erosion and other appropriate factors.

Section 203(c) provides that a producer on a farm who wishes to participate in the acreage reduction program must enter into an agreement with the Secretary for such participation not later than a date prescribed by the Secretary. The Secretary may terminate or modify the agreement by mutual agreement with the producers on the farm if the Secretary determines that such action is necessary as a result of an emergency created by a disaster or to prevent or alleviate a shortage in the supply of agricultural commodities.

General Provisions

Section 204(a) provides that if the failure of a producer to comply fully with the terms and conditions of the wheat program precludes the making of loans and payments, the Secretary may, nevertheless, make such loans and payments in such amounts as the Secretary determines to be equitable in relation to the seriousness of the failure. In addition, the Secretary may authorize State and county Agricultural Stabilization and Conservation committees to waive or modify deadlines and other program requirements where the failure or lateness does not affect adversely the operation of the program.

Section 204(b) authorizes the Secretary to issue such regulations as the Secretary deems necessary to carry out the wheat program.

Section 204(c) provides for carrying out the wheat program through the Commodity Credit Corporation.

Section 204(d) provides that the provisions of section 8(g) of the Soil Conservation and Domestic Allotment Act (relating to assignment of payments) shall apply to payments made under the wheat program.

Section 204(e) requires that the Secretary provide for the sharing of payments made under the wheat program for any farm among the producers on the farm on a fair and equitable basis.

Section 204(f) requires that the Secretary provide adequate safeguards to protect the interests of tenants and sharecroppers.

TITLE III - Feed Grains

Loan Program

Section 301(a) provides that the Secretary shall make loans available to producers of each of the 1986 and subsequent crops of corn, grain sorghum, and barley who pledge their production as security for the loan.

Section 301(b) provides that the loans will be made available at the basic loan rate for each crop of corn, grain sorghum, and barley pledged as security for the loan adjusted to reflect differences in quality and location. The basic loan rate for each crop of corn, grain

sorghum, and barley is equal to 75 percent of the national average market price received by producers for the commodity during the marketing years for the three immediately preceding crops of the commodity as determined by the Secretary.

Section 301(c) provides that a loan shall be repaid, together with accrued interest, within nine months after the month in which the loan application is made.

Payment Program

Section 302(a) provides that the Secretary shall make payments available to producers of each of the 1986 and subsequent crops of corn, grain sorghum, and barley. The payments are to be computed by multiplying (1) the payment rate established for each crop of the commodity by (2) the acreage planted to the crop of the commodity on a farm by (3) the farm's payment yield for each crop of the commodity.

Section 302(b) provides that the payment rate for each crop of corn, grain sorghum, and barley is the amount by which the national average market price received by producers for such crop during the marketing year for that commodity is less than (1) the national average market price received by producers for the commodity for each of the three marketing years immediately preceding the year for which the payment is made, multiplied by (2) 100 percent for the 1986 crop, 95 percent for the 1987 crop, 90 percent for the 1988 crop, 85 percent for

the 1989 crop, 80 percent for the 1990 crop, and 75 percent for each of the 1991 and subsequent crops.

Section 302(c) provides that a farm's payment yield for each crop of the commodity shall be based upon the actual yields per harvested acre on the farm for the immediately three preceding crops of the commodity. The actual yields shall be adjusted by the Secretary for abnormal yields in any year resulting from natural disasters or other conditions beyond the control of producers. If any of the three preceding crops of the commodity was not produced on the farm, the farm's payment yield shall be determined taking into consideration the yields of comparable farms in the surrounding area and such other factors as the Secretary determines will produce a fair and equitable yield.

Acreage Reduction Program

Section 303(a) provides that the Secretary shall establish an acreage reduction program for each of the 1986, 1987, and 1988 crops of corn, grain sorghum, and barley. Under the program, the acreage of each of the commodities planted for harvest on any farm is limited to the farm acreage base established for the commodity for the farm reduced by 15 percent for the 1986 crop, 10 percent for the 1987 crop, and 5 percent for the 1988 crop. A producer who produces the commodity in excess of the permitted acreage for that commodity for a farm shall be ineligible for loans and payments with respect to that farm for that crop of that commodity. The farm acreage base for any crop of the commodity shall be the average acreage of the commodity planted for

harvest on the farm in the three crop years immediately preceding the year prior to the year for which the determination is made. The farm acreage base may be adjusted to reflect established crop rotation practices and to reflect such other factors as the Secretary determines should be considered in determining a fair and equitable base.

Section 303(b) provides that, when an acreage reduction program is in effect, producers shall devote a specified number of acres on the farm to conservation uses. The number of acres on the farm required to be devoted to conservation uses is determined by dividing (1) the product obtained by multiplying the number of acres required to be withdrawn from the production of the commodity times the number of acres planted to the commodity, by (2) the number of acres of the commodity authorized to be planted to the commodity under the acreage limitation in effect for the crop.

Section 303(c) provides that a producer on a farm who wishes to participate in the acreage reduction program must enter into an agreement with the Secretary for such participation not later than a date prescribed by the Secretary. The Secretary may terminate or modify the agreement by mutual agreement with the producers on the farm if the Secretary determines that such action is necessary because of an emergency created by a disaster or to prevent or alleviate a shortage in the supply of agricultural commodities.

General Provisions

Section 304(a) provides that if the failure of a producer to comply fully with the terms and conditions of the feed grain program precludes the making of loans and payments, the Secretary may, nevertheless, make such loans and payments in such amounts as the Secretary determines to be equitable in relation to the seriousness of the failure. In addition, the Secretary may authorize State and county Agricultural Stabilization and Conservation committees to waive or modify deadlines and other program requirements where the failure or lateness does not affect adversely the operation of the program.

Section 304(b) authorizes the Secretary to issue such regulations as the Secretary deems necessary to carry out the feed grain program.

Section 304(c) provides for carrying out the feed grain program through the Commodity Credit Corporation.

Section 304(d) provides that the provisions of section 8(g) of the Soil Conservation and Domestic Allotment Act (relating to assignment of payments) shall apply to payments made under the feed grain program.

Section 304(e) requires that the Secretary provide for the sharing of payments made under the feed grain program for any farm among the producers on the farm on a fair and equitable basis.

Section 304(f) requires that the Secretary provide adequate safeguards to protect the interests of tenants and sharecroppers.

TITLE IV - Cotton

Loan Program

Section 401(a) provides that the Secretary shall make loans available to producers of each of the 1986 and subsequent crops of upland cotton and extra long staple cotton who pledge their production as security for the loan.

Section 401(b) provides that the loans will be made available at the basic loan rate for each crop of upland cotton and extra long staple cotton pledged as security for the loan adjusted to reflect differences in grade, staple, micronaire, and other factors. The basic loan rate for each crop of the commodity is equal to 75 percent of the national average market price received by producers for the commodity during the marketing years for the three immediately preceding crops of the commodity as determined by the Secretary.

Section 401(c) provides that a loan shall be repaid, together with accrued interest, within nine months after the month in which the loan application is made.

Payment Program

Section 402(a) provides that the Secretary shall make payments available to producers of each of the 1986 and subsequent crops of upland cotton and extra long staple cotton. The payments are to be

computed by multiplying (1) the payment rate established for the crop of the commodity by (2) the acreage planted to the crop of the commodity on a farm by (3) the farm's payment yield for each crop of the commodity.

Section 402(b) provides that the payment rate for each crop of upland cotton and extra long staple cotton is the amount by which the national average market price received by producers of each crop of the commodity during the marketing year for that commodity is less than (1) the national average market price received by producers for the commodity for each of the three marketing years immediately preceding the year for which the payment is made, multiplied by (2) 100 percent for the 1986 crop, 95 percent for the 1987 crop, 90 percent for the 1988 crop, 85 percent for the 1989 crop, 80 percent for the 1990 crop, and 75 percent for each of the 1991 and subsequent crops.

Section 402(c) provides that a farm's payment yield for each crop of the commodity shall be based upon the actual yields per harvested acre on the farm for the immediately three preceding crops of the commodity. The actual yields shall be adjusted by the Secretary for abnormal yields in any year resulting from natural disasters or other conditions beyond the control of producers. If any of the three immediately preceding crops of the commodity was not produced on the farm, the farm's payment yield shall be determined taking into consideration the yields of comparable farms in the surrounding area and such other factors as the Secretary determines will produce a fair and equitable yield.

Acreage Reduction Program

Section 403(a) provides that the Secretary shall establish an acreage reduction program for each of the 1986, 1987, and 1988 crops of upland cotton and extra long staple cotton. Under the program, the acreage of the commodity planted for harvest on any farm is limited to the acreage base established for the commodity for the farm reduced by 15 percent for the 1986 crop, 10 percent for the 1987 crop, and 5 percent for the 1988 crop. A producer who produces the commodity in excess of the permitted acreage for a crop of the commodity for a farm shall be ineligible for loans and payments with respect to that farm for that crop of the commodity. The farm acreage base for any crop of the commodity shall be the average acreage of the commodity planted for harvest on the farm in the three crop years immediately preceding the year prior to the year for which the determination is made. The farm acreage base may be adjusted to reflect established crop rotation practices and to reflect such other factors as the Secretary determines should be considered in determining a fair and equitable base.

Section 403(b) provides that, when an acreage reduction program is in effect, producers shall devote a specified number of acres on the farm to conservation uses. The number of acres on the farm required to be devoted to conservation uses is determined by dividing (1) the product obtained by multiplying the number of acres required to be withdrawn from the production of the commodity times the number of

acres actually planted to the commodity, by (2) the number of acres of the commodity authorized to be planted to the commodity under the acreage limitation in effect for the crop.

Section 403(c) provides that a producer on a farm who wishes to participate in the acreage reduction program must enter into an agreement with the Secretary for such participation not later than a date prescribed by the Secretary. The Secretary may terminate or modify the agreement by mutual agreement with the producers on the farm if the Secretary determines that such action is necessary as a result of an emergency created by a disaster or to prevent or alleviate a shortage in the supply of agricultural commodities.

General Provisions

Section 404(a) provides that if the failure of a producer to comply fully with the terms and conditions of the cotton program precludes the making of loans and payments, the Secretary may, nevertheless, make such loans and payments in such amounts as the Secretary determines to be equitable in relation to the seriousness of the failure. In addition, the Secretary may authorize State and county Agricultural Stabilization and Conservation committees to waive or modify deadlines and other program requirements where the failure or lateness does not affect adversely the operation of the program.

Section 404(b) authorizes the Secretary to issue such regulations as the Secretary deems necessary to carry out the cotton program.

Section 404(c) provides for carrying out the cotton program through the Commodity Credit Corporation.

Section 404(d) provides that the provisions of section 8(g) of the Soil Conservation and Domestic Allotment Act (relating to assignment of payments) shall apply to payments made under the cotton program.

Section 404(e) requires that the Secretary provide for the sharing of payments made under the cotton program for any farm among the producers on the farm on a fair and equitable basis.

Section 404(f) requires that the Secretary provide adequate safeguards to protect the interests of tenants and sharecroppers.

Section 404(g) provides for a definition of extra long staple cotton.

TITLE V - Rice

Loan Program

Section 501(a) provides that the Secretary shall make loans available to producers of each of the 1986 and subsequent crops of rice who pledge their production as security for the loan.

Section 501(b) provides that the loans will be made available at the basic loan rate for each type of each crop of rice pledged as

security for the loan adjusted to reflect differences in quality, location, and other factors. The basic loan rate for each type of each crop of rice is equal to 75 percent of the national average market price received by producers for that type of rice during the marketing years for the three immediately preceding crops of rice as determined by the Secretary.

Section 501(c) provides that a loan shall be repaid, together with accrued interest, within nine months after the month in which the loan application is made.

Payment Program

Section 502(a) provides that the Secretary shall make payments available to producers of each of the 1986 and subsequent crops of each type of rice. The payments are to be computed by multiplying (1) the payment rate established for each type of the crop by (2) the acreage planted to each type of the crop of rice on a farm by (3) the farm's payment yield for the crop.

Section 502(b) provides that the payment rate for each type of each crop of rice is the amount by which the national average market price received by producers of that crop of rice during the marketing year for that crop is less than (1) the national average market price received by producers of that type of rice for each of the three marketing years immediately preceding the year for which the payment is made, multiplied by (2) 100 percent for the 1986 crop, 95 percent for the 1987 crop, 90

percent for the 1988 crop, 85 percent for the 1989 crop, 80 percent for the 1990 crop, and 75 percent for each of the 1991 and subsequent crops.

Section 502(c) provides that a farm's payment yield for each crop of rice shall be based upon the actual yields per harvested acre on the farm for the immediately three preceding crops of rice. The actual yields shall be adjusted by the Secretary for abnormal yields in any year resulting from natural disasters or other conditions beyond the control of producers. If any of the three immediately preceding crops of rice was not produced on the farm, the farm's payment yield shall be determined taking into consideration the yields of comparable farms in the surrounding area and such other factors as the Secretary determines will produce a fair and equitable yield.

Acreage Reduction Program

Section 503(a) provides that the Secretary shall establish an acreage reduction program for each of the 1986, 1987, and 1988 crops of rice. Under the program, the acreage of rice planted for harvest on any farm is limited to the farm acreage base reduced by 15 percent for the 1986 crop, 10 percent for the 1987 crop, and 5 percent for the 1988 crop. A producer who produces rice in excess of the permitted rice acreage for a farm for a crop shall be ineligible for loans and payments with respect to that farm for that crop of rice. The farm acreage base for any crop of rice shall be the average acreage planted on the farm to rice for harvest in the three crop years immediately preceding the year prior to the year for which the determination is made. The farm acreage

base may be adjusted to reflect established crop rotation practices and to reflect such other factors as the Secretary determines should be considered in determining a fair and equitable base.

Section 503(b) provides that when an acreage reduction program is in effect, producers shall devote a specified number of acres on the farm to conservation uses. The number of acres on the farm required to be devoted to conservation uses is determined by dividing (1) the product obtained by multiplying the number of acres required to be withdrawn from the production of rice times the number of acres actually planted to rice, by (2) the number of acres of rice authorized to be planted to rice under the acreage limitation in effect for the crop.

Section 503(c) provides that a producer on a farm who wishes to participate in the acreage reduction program must enter into an agreement with the Secretary for such participation not later than a date prescribed by the Secretary. The Secretary may terminate or modify the agreement by mutual agreement with the producers on the farm if the Secretary determines that such action is necessary as a result of an emergency created by a disaster or to prevent or alleviate a shortage in the supply of agricultural commodities.

General Provisions

Section 504(a) provides that if the failure of a producer to comply fully with the terms and conditions of the rice program precludes the making of loans and payments, the Secretary may, nevertheless, make such

loans and payments in such amounts as the Secretary determines to be equitable in relation to the seriousness of the failure. In addition, the Secretary may authorize State and county Agricultural Stabilization and Conservation committees to waive or modify deadlines and other program requirements where the lateness or failure does not affect adversely the operation of the program.

Section 504(b) authorizes the Secretary to issue such regulations as the Secretary deems necessary to carry out the rice program.

Section 504(c) provides for carrying out the rice program through the Commodity Credit Corporation.

Section 504(d) provides that the provisions of section 8(g) of the Soil Conservation and Domestic Allotment Act (relating to assignment of payments) shall apply to payments which are made under the rice program.

Section 504(e) requires that the Secretary provide for the sharing of payments made under the rice program for any farm among the producers on the farm on a fair and equitable basis.

Section 504(f) requires that the Secretary provide adequate safeguards to protect the interests of tenants and sharecroppers.

TITLE VI - Soybeans

Loan Program

Section 601(a) provides that the Secretary shall make loans available to producers of each of the 1986 and subsequent crops of soybeans who pledge their production as security for the loan.

Section 601(b) provides that the loans will be made available at the basic loan rate for each crop of soybeans pledged as security for the loan adjusted to reflect differences in grade, quality, and location. The basic loan rate for each crop of soybeans is equal to 75 percent of the national average market price received by producers for the commodity during the marketing years for the three immediately preceding crops of soybeans as determined by the Secretary.

Section 601(c) provides that a loan shall be repaid, together with accrued interest, within nine months after the month in which the loan application is made.

General Provisions

Section 602(a) authorizes the Secretary to issue such regulations as the Secretary deems necessary to carry out the soybean program.

Section 602(b) provides for carrying out the soybean program through the Commodity Credit Corporation.

TITLE VII - Dairy

Price Support Program

Section 701(a) requires that, except as provided in section 701(b), the Secretary shall make price support available for the period beginning October 1, 1985 and ending September 30, 1987 to producers of milk through the purchase of milk and milk products at a level of $11.60 per hundredweight for milk containing 3.67 percent milkfat.

Section 701(b)(1) provides that, if the Secretary estimates on April 1, 1986, that net price support purchases of milk or the products of milk for the twelve-month period beginning on that date will exceed 5 billion pounds milk equivalent, the level of price support in effect on that date shall be reduced by 50 cents per hundredweight.

Section 701(b)(2) provides that, if the Secretary estimates on January 1, 1987, that for the nine-month period beginning on that date net price support purchases of milk or the products of milk will be at a level which exceeds an annual rate of 5 billion pounds milk equivalent, the level of price support in effect on that date shall be reduced by 50 cents per hundredweight.

Payment Program

Section 702(a) provides that the Secretary shall make payments available to producers of milk for each of the fiscal years after 1987 in an amount computed by multiplying the payment rate for the fiscal year by the quantity of milk marketed as milk or milk products by a producer during the fiscal year.

Section 702(b) provides that the payment rate for the 1988 fiscal year shall be the amount by which the national average market price received by producers for all milk for fiscal year 1988 is less than the smaller of (i) the national average market price received by producers for all milk for fiscal year 1987 or (ii) 90 percent of the national average market price received by producers for all milk for the three fiscal years immediately preceding the 1988 fiscal year. Section 702(b) provides further that the payment rate for each of the 1989 fiscal year and subsequent fiscal years shall be the amount by which the national average market price received by producers for all milk in each such fiscal year is less than (i) the amount computed by multiplying the national average market price received by producers for all milk for the immediately preceding three fiscal years by (ii) 85 percent for fiscal year 1989, 80 percent for fiscal year 1990, and 75 percent for fiscal year 1991 and all subsequent fiscal years.

Section 702(c) specifies that the provisions of section 8(g) of the Soil Conservation and Domestic Allotment Act (relating to assignment of payments) shall apply to payments which are made under the dairy program.

Section 702(d) requires that the Secretary provide for the sharing of payments made under the dairy program for any farm among the producers on the farm on a fair and equitable basis.

General Provisions

Section 703(a) authorizes the Secretary to issue such regulations as the Secretary deems necessary to carry out the dairy program.

Section 703(b) provides for carrying out the dairy program through the Commodity Credit Corporation.

Task Force

Section 704(a) provides that the Secretary shall appoint a task force consisting of ten individuals which shall (A) study the need for federal milk marketing orders administered by the Secretary under the Agricultural Marketing Agreement Act of 1937 and the degree to which such orders serve public objectives; (B) assess the impact of existing federal milk marketing orders on producers and other parties; (C) identify, describe, and evaluate feasible alternatives to the existing milk marketing order program which evaluation is required to include an analysis of the costs and benefits of the commercial reconstitution of milk for fluid use; and (4) prepare, by September 30, 1990, a report of the task force's findings and recommendations, if any, for regulatory and legislative changes in the milk marketing order program.

Section 704(b) specifies that of the ten members on the task force, three shall be milk producers, three shall be processors of milk or represent milk processors, two shall be agricultural economists from land grant universities, and two shall be representatives of consumer organizations. Section 704(b) provides further with respect to the three individuals on the task force who are or represent milk

processors, that two of the three individuals shall be representatives of cooperative organizations engaged in the processing of milk and the other individual shall be an independent processor of milk, or a representative of an organization which represents individual processors of milk.

Federal Milk Marketing Orders

Section 705 extends, for four years, through December 31, 1989, the authority for seasonal incentive plans, otherwise known as seasonal base-excess and "Louisville" plans, in federal milk marketing orders.

TITLE VIII - Peanuts

Loan Program

Section 801(a) provides that the Secretary shall make loans available to producers of each of the 1986 and subsequent crops of peanuts who pledge their production as security for the loan.

Section 801(b) provides that the loans will be made available at the basic loan rate for each crop of peanuts pledged as security for the loan adjusted to reflect differences in quality, type and location. The basic loan rate for each crop of peanuts is equal to the smaller of (1) 75 percent of the national average market price received by producers during the marketing years for the three immediately preceding crops of peanuts as determined by the Secretary or (2) $250 per ton.

Section 801(c) provides that the loans shall be repaid, together with accrued interest, within a period of nine months after the month in which the loan application is made.

Payment Program

Section 802(a) provides that the Secretary shall make payments available to producers of each of the 1986 and subsequent crops of peanuts.

Section 802(b) provides that the amount of any payments are to be computed by multiplying (1) the quantity of eligible peanuts of each crop by (2) the payment rate established for each crop.

Section 802(c) provides that, for each of the 1986 through 1990 crops, the total quantity of peanuts for which producers on the farm may receive payments shall be the smaller of (1) the total quantity computed by multiplying the acreage planted to the crop on a farm by the farm's payment yield for the crop or (2) the farm's payment quota. The farm's payment quota is the basic farm poundage quota which was allocated to the farm for the 1985 crop year, disregarding any temporary adjustments for that crop year, adjusted to take into account any permanent or temporary transfers of a payment quota made to or from the farm in accordance with section 803. For each of the 1991 and subsequent crops of peanuts, a producer is eligible for payments on the quantity computed by multiplying (1) the acreage planted to the crop on a farm by (2) the farm's payment yield for the crop.

Section 802(d) provides that the payment rate for the 1986 crop of peanuts is the amount by which the national average price received by producers during the marketing year for that crop is less than $550 per ton. The payment rate for each of the 1987 and subsequent crops of peanuts is the amount by which the national average market price received by producers during the marketing year for the crop is less than (1) the national average market price received by producers for peanuts for each of the three marketing years immediately preceding the year for which the payment is made multiplied by (2) 95 percent for the 1987 crop, 90 percent for the 1988 crop, 85 percent for the 1989 crop, 80 percent for the 1990 crop, and 75 percent for each of the 1991 and subsequent crops.

Section 802(e) provides that the farm's payment yield for each crop of peanuts shall be based upon the actual yields per harvested acre on the farm for the immediately three preceding crop of peanuts. The actual yields shall be adjusted by the Secretary for abnormal yields in any year resulting from a natural disaster or other condition beyond the control of producers. If any of the three preceding crops of peanuts was not produced on the farm, the farm's payment yield shall be determined taking into consideration the yields of comparable farms in the surrounding area and such other factors as the Secretary determines will produce a fair and equitable yield.

Transfers of Farm Payment Quota

Section 803(a) provides that, for the 1986 through 1990 crops of peanuts, if a farm with a payment quota is transferred to a new owner, the payment quota shall remain with the farm.

Section 803(b) provides that a payment quota may be permanently transferred from one farm to another only if the quota is transferred by reason of the death of the owner of the transferring farm, by gift, or to a farm of a member of the family of an owner of the transferring farm.

Section 803(c) provides that, for any of the 1986 through 1990 crops, a temporary lease or transfer of all or a part of the farm's payment quota may be made if both the owner and operator of the transferring farm agree to the transfer in writing and the transfer is to a farm with the same operator.

Section 803(d) provides that no transfers of a farm payment quota from a farm subject to a mortgage or lien will be permitted unless the transfer is agreed to by the lienholder and no transfer will be permitted until a record of transfer is filed with, and approved by, the county ASC committee for the county to which the transfer is made. Section 803(d) further provides that all payment quota transfers shall be subject to such other terms and conditions as the Secretary may prescribe.

General Provisions

Section 804(a) authorizes the Secretary to issue such regulations as the Secretary deems necessary to carry out the peanut program.

Section 804(b) provides for carrying out the peanut program through the Commodity Credit Corporation.

Section 804(c) provides that the provisions of section 8(g) of the Soil Conservation and Domestic Allotment Act (relating to assignment of payments) shall apply to payments which are made under the peanut program.

Section 804(d) requires that the Secretary provide for the sharing of payments made under the peanut program for any farm among the producers on the farm on a fair and equitable basis.

Section 804(e) requires that the Secretary provide adequate safeguards to protect the interest of tenants and sharecroppers.

TITLE IX - Sugar

Loan Program

Section 901(a) establishes a loan program for the 1986 and subsequent crops of sugar cane and sugar beets. Loans are made available on a fiscal year basis. The sugar cane loan rate is based upon 75 percent of the national average market price, raw value, for the three fiscal years immediately preceding that crop year. However, the loan rate for sugar cane would be no greater than 12 cents per pound, raw value. The

loan rate for the 1986 and subsequent crops of sugar beets would be set by the Secretary and would be fair and reasonable in relation to the sugar cane loan rate.

Section 901(b) provides that the loans shall be repaid, together with accrued interest, within the same fiscal year in which the loan was disbursed.

Section 901(c) directs the Secretary to take all the steps that the Secretary determines are practicable, reasonable and consistent with the agricultural and foreign policies of the United States to avoid the acquisition of stocks of sugar by the Commodity Credit Corporation under the sugar loan program.

Payment Program

Section 902(a) provides that the Secretary shall make payments available to producers of each of the 1986 and subsequent crops of sugar cane and sugar beets. The payments are to be computed by multiplying (1) the payment rate established for each crop by (2) the quantity of harvested production of each crop.

Section 902(b) provides that the payment rate for each crop of sugar cane is the amount by which the national average market price for sugar, raw value, is less than the higher of (1) 75 percent of the national average market price for sugar, raw value, for the three fiscal years immediately preceding the crop year for which the payment is made

or (2) on a per pound, raw value basis, 18 cents for the 1986 crop, 16 cents for the 1987 crop, 14 cents for the 1988 crop, 12 cents for the 1989 crop, and 12 cents per pound, raw value, for the 1990 crop.

Section 902(c) provides that the payment rate for each crop of sugar beets is the amount by which the national average market price for sugar, refined value, is less than (1) for each of the 1986 through 1990 crops, the amount determined by the Secretary to be fair and reasonable in relation to the payment rate established for sugar cane and (2) for each of the 1991 and subsequent crops, 75 percent of the national average market price for sugar, refined value, for the three fiscal years immediately preceding the crop year for which payment is made.

General Provisions

Section 903(a) authorizes the Secretary to issue such regulations as the Secretary deems necessary to carry out the sugar program.

Section 903(b) provides for carrying out the sugar program through the Commodity Credit Corporation.

Section 903(c) provides that the provisions of section 8(g) of the Soil Conservation and Domestic Allotment Act (relating to assignment of payments) shall apply to payments which are made under the sugar program.

Section 903(d) requires that the Secretary provide for the sharing of payments made under the sugar program for any farm among the producers on the farm on a fair and equitable basis.

Section 903(e) requires that the Secretary provide adequate safeguards to protect the interests of tenants and sharecroppers.

TITLE X - Wool and Mohair

Payment Program

Section 1001(a) provides that the Secretary shall make payments available to producers of wool and mohair for each of the 1986 and subsequent marketing years. The payments are to be computed by multiplying (1) the payment rate established for the marketing year by (2) the quantity of wool or mohair marketed in the marketing year.

Section 1001(b) provides that the payment rate for shorn wool for each of the 1986 and subsequent marketing years shall be the amount by which the national average market price received by producers for shorn wool during the marketing year is less than the smaller of (1) $1.65 per pound or (2) the amount which is determined by multiplying (A) the national average market price received by producers for each of the preceding three marketing years, by (B) 100 percent for the 1986 marketing year, 95 percent for the 1987 marketing year, 90 percent for the 1988 marketing year, 85 percent for the 1989 marketing year, 80 percent

for the 1990 marketing year, and 75 percent for the 1991 and subsequent marketing years.

Section 1001(c) provides that the payment rate for pulled wool shall be established at such level in relationship to the payment rate established for shorn wool as the Secretary determines will maintain the normal marketing practices for pulled wool.

Section 1001(d) provides that the payment rate for mohair for each of the 1986 and subsequent marketing years shall be the amount by which the national average market price received by producers for mohair during the marketing year is less than the smaller of (1) $5.17 per pound or (2) the amount which is determined by multiplying (A) the national average market price received by producers for each of the preceding three marketing years, by (B) 100 percent for the 1986 marketing year, 95 percent for the 1987 marketing year, 90 percent for the 1988 marketing year, 85 percent for the 1989 marketing year, 80 percent for the 1990 marketing year, and 75 percent for the 1991 and subsequent marketing years.

General Provisions

Section 1002(a) authorizes the Secretary to issue such regulations as the Secretary deems necessary to carry out the wool and mohair program.

Section 1002(b) provides for carrying out the wool and mohair program through the Commodity Credit Corporation.

Section 1002(c) provides that the provisions of section 8(g) of the Soil Conservation and Domestic Allotment Act (relating to assignment of payments) shall apply to payments which are made under the wool and mohair program.

TITLE XI - Food Assistance Reserve

Establishment of Reserve

Section 1101 provides that the Secretary may establish a food assistance reserve of up to 500 million bushels of wheat and feed grains to be used in accordance with the provisions of Title XI.

Use of Stocks

Section 1102(a) provides that the stocks of the reserve may be made available by the Secretary to meet urgent humanitarian needs.

Section 1102(b) provides that in connection with the use of the stocks in the reserve the Secretary may pay for processing, reprocessing, packaging, transporting, handling, and other charges, including the cost of overseas delivery.

Management of Stocks

Section 1103(a) provides that the Secretary, in order to establish the reserve or replenish the stocks of the reserve, may (1) acquire wheat or feed grains for the reserve through purchases from producers or in the market if the Secretary determines that such purchases will not

unduly disrupt the market, and (2) designate stocks of wheat and feed grains otherwise acquired by the Commodity Credit Corporation as stocks of the reserve.

Section 1103(b) provides that the Secretary may provide for the periodic rotation of stocks of the reserve to avoid spoilage and deterioration of such stocks.

General Provisions

Section 1104(a) provides that the Secretary may issue such rules and regulations as the Secretary determines necessary to carry out the provisions of Title XI.

Section 1104(b) provides that the funds, facilities and authorities of the Commodity Credit Corporation shall be used by the Secretary in carrying out Title XI.

Section 1104(c) provides that any determination by the Secretary under Title XI shall be final.

TITLE XII - General Provisions

Payment Limitation

Section 1201(a) limits the total amount of payments which a person is entitled to receive under this Act. The total amount of payments

which a person may receive under Titles II, III, IV, V, VIII, IX, and X of this Act with respect to (1) the 1986 crops, including the 1986 marketing year for wool and mohair, is $20,000, and (2) the 1987 crops, including the 1987 marketing year for wool and mohair, is $15,000. The total amount of payments which a person may receive under Titles II, III, IV, V, VII, VIII, IX, and X of this Act with respect to the 1988 and subsequent crops, including each of the 1988 and subsequent fiscal years for dairy and each of the 1988 and subsequent marketing years for wool and mohair, is $10,000. If the Secretary determines that the total amount of payments that will be earned by any person under a commodity program will be reduced by this subsection, any acreage requirements established by an acreage reduction program for the farm or farms on which such payments will be earned may be adjusted so as to be fair and reasonable in relation to the amount of the payment reduction.

Section 1201(b) provides that the Secretary shall issue regulations defining the term "person" and prescribing such rules as the Secretary determines necessary to assure a fair and reasonable application of these limitations.

Nonrecourse Loans

Section 1202(a) provides that a producer may, at the time of application for a commodity loan under Titles II, III, IV, V, VI, and VIII, of this Act, designate the loan as a nonrecourse loan. The total outstanding balance of all nonrecourse loans for all commodities at any time may not exceed $200,000. Applicants for a sugar loan may also

designate the loan as nonrecourse under terms and conditions and up to a level prescribed by the Secretary. The Secretary is directed to prescribe a level equivalent to permitting each sugar producer to have a total outstanding balance for all commodities at any time of $200,000, and to provide that, to the extent practicable, nonrecourse sugar loans will be taken into account in determining producers' $200,000 nonrecourse loan limit.

Section 1202(b) provides that a borrower shall not be personally liable for any deficiency arising from the sale of collateral securing a nonrecourse loan unless the loan was obtained through fraudulent representations by the producer or the borrower. Borrowers may be required to assume liability for deficiencies in the grade, quality, or quantity of commodities pledged as collateral or for failure to properly care for and preserve commodities, or for failure or refusal to deliver commodities in accordance with program requirements. The terms and conditions of a nonrecourse loan may provide that on and after the maturity of the loan or extension thereof that CCC shall have the right to acquire title to the unredeemed collateral without obligation to pay for any market value which the collateral may have in excess of the loan indebtedness.

Section 1202(c) provides that the payment rate with respect to collateral securing a nonrecourse loan under a program established by Titles II, III, IV, V, and VIII of this Act shall, notwithstanding the provisions of those Titles, be the lesser of (i) the payment rate which would otherwise be applicable to the commodity or (ii) the amount by

which the national average market price for the commodity which is pledged as the collateral is less than the loan rate for the collateral.

Measurement of Farms and Report of Plantings

Section 1203(a) provides that the Secretary shall ascertain, by measurement or otherwise, the acreage of any commodity or land use on a farm to determine compliance with any program authorized by this Act. Such measurements, insofar as practicable, shall be made prior to harvest.

Section 1203(b) provides that the Secretary shall allow, upon request of the farm operator, for the remeasurement of acreage planted to a commodity. Provision is also made for the payment by the farm operator of such remeasurements and the refund of any deposit or payment made by the farm operator if the remeasurement reveals an error in the original measurement.

Reconstitution of Farms

Section 1204 provides that, when the ownership of a tract of land is transferred from a parent farm, any payment quota, history acreage and base acreage for the farm shall be divided between such tract and the parent farm in the same proportion as the cropland in the tract bears to the cropland acreage in the parent farm. However, section 1204 provides that the Secretary may provide alternative methods of apportionment when (1) the land is acquired by an agency with the right of

eminent domain, (2) the division based on cropland proportions would not be representative of normal activities carried out on any of the transferred tract, and (3) the parent farm is divided among heirs in settling an estate.

Advance Payments

Section 1205 provides that the Secretary may make advance payments to producers if the Secretary determines that payments are to be made under any commodity program authorized by this Act.

Finality of Commodity Loans and Payments

Section 1206 provides that the facts constituting the basis for any loan or payment under any commodity program authorized by this Act, or the amount thereof, shall be final and conclusive and shall not be reviewable by any other officer or agency of the Government. It also authorizes the Secretary, in the event a producer entitled to a commodity program payment dies, becomes incompetent, or disappears before receiving payment, to make the payment as the Secretary determines fair and reasonable in all the circumstances.

Determinations by Secretary

Section 1207(a) provides that determinations made by the Secretary under any commodity program authorized by this Act shall be final and conclusive to the extent that the scope and nature of such determinations

are not inconsistent with the provisions of the Commodity Credit Corporation Charter Act.

Section 1207(b) provides that the Secretary shall determine the rate of loans, purchases, and payments under this Act without regard to the requirements for notice and other procedures for public participation in rulemaking contained in section 553 of title 5, United States Code, or in any directive of the Secretary.

Definitions

Section 1208 sets forth definitions for certain terms which are used in this Act.

TITLE XIII - Repeal of Prior Legislation

Agricultural Adjustment Act of 1938

Section 1301(a) provides that, except for the sections listed in section 1301(b), the Agricultural Adjustment Act of 1938, (52 Stat. 31, as amended) is repealed effective on the date of enactment of this Act, except that--

(1) sections 301, 358(k), 358(l), 358(m), 358(n), 358(o), 358(p), 358(i), 358a(j), 359(c), 359(f), 359(g), 359(h), 359(i), 359(j), 359(k), 359(l), 367, 368, 372, 375, 376, 386, and 388, as amended, shall be effective through the 1985 crop of peanuts; and

(2) sections 373, 374, 378, 379, and 385, as amended, shall be effective through the 1985 crop of wheat, feed grains, upland and extra long staple cotton, rice, and peanuts.

Section 1301(b) provides that section 1301(a) shall not be applicable to the following sections of the Agricultural Adjustment Act of 1938 (52 Stat. 31, as amended)--

(1) sections 201, 202, and 301(a)(1) and (2), as amended; and

(2) Title III, Subtitle B, Part 1, as amended, and sections 301, 361-368, 371, 372, 374-379, 385, 386, and 388, as amended, with respect to tobacco.

Agricultural Act of 1949

Section 1302(a) provides that, except for the sections listed in section 1302(b), the Agricultural Act of 1949 (63 Stat. 1051, as amended) is repealed effective on the date of enactment of this Act, except that--

(1) section 101(i), as amended, shall be effective through the 1985 crop of rice;

(2) section 103(g), as amended, shall be effective through the 1985 crop of upland cotton;

(3) section 103(h) shall be effective through the 1985 crop of extra long staple cotton;

(4) section 105B, as amended, shall be effective through the 1985 crop of feed grains;

(5) section 107B, as amended, shall be effective through the 1985 crop of wheat;

(6) section 107C shall be effective through the 1985 crops of wheat, feed grains, upland cotton, and rice;

(7) section 108A shall be effective through the 1985 crop of peanuts;

(8) section 109, as amended, shall be effective through the 1985 crops of wheat, feed grains, and upland cotton;

(9) subsections (a), (b), (c), (d), (e), (g), (h), and (i) of section 110 shall be effective through the 1985 crops of wheat and feed grains, except that the Secretary shall not, subsequent to the date of enactment of this Act, authorize the extension of any outstanding price support loans under subsection (b) of section 110;

(10) section 201, as amended, shall be effective through the 1985 crops of soybeans, honey, sugar beets, and sugar cane and shall be effective for milk through September 30, 1985; and

(11) sections 401, 402, 403, 404, 405, 406, 408, and 412, as amended, shall be effective through the 1985 crops of wheat, feed grains, upland and extra long staple cotton, rice, soybeans, honey, sugar beets, sugar cane, and peanuts and shall be effective for milk through September 30, 1985.

Section 1302(b) provides that section 1302(a) shall not be applicable to the following sections of the Agricultural Act of 1949 (63 Stat. 1051, as amended)--

(1) section 416, as amended; and

(2) sections 106, 106A, 106B, 401, 402, 403, 404, 405, 406, 408, and 412, as amended, with respect to tobacco.

Miscellaneous Statutes

Section 1303(a) provides that section 302(f) of the Agricultural Act of 1948 (62 Stat. 1258) is repealed effective on the date of enactment of the Act.

Section 1303(b) provides that sections 706 and 708 of the Food and Agriculture Act of 1965 (79 Stat. 1211, as amended) are repealed effective on the date of enactment of the Act.

Section 1303(c) provides that sections 327 and 328 of the Food and Agriculture Act of 1962 (76 Stat. 631) are repealed effective on the date of enactment of the Act.

Section 1303(d) provides that Public Law 74, 77th Congress (55 Stat. 203, as amended), is repealed effective with regard to wheat planted for harvest in the 1986 and subsequent calendar years.

Section 1303(e) provides that section 506 of the Agriculture and Food Act of 1981 (95 Stat. 1241) is repealed effective on the date of enactment of the Act.

Section 1303(f) provides that, except with respect to tobacco, section 803 of the Agricultural Act of 1970 (84 Stat. 1381) is repealed effective on the date of enactment of the Act, except that such section shall be effective through the 1985 crops of wheat, feed grains, upland cotton, extra long staple cotton, rice and peanuts.

Section 1303(g) provides that Public Law 660, 75th Congress (52 Stat. 762), is repealed effective on the date of enactment of the Act.

Section 1303(h) provides that section 813 of the Agricultural Act of 1970 (87 Stat. 239, as amended), is repealed effective on the date of enactment of the Act.

Section 1303(i) provides that the Food Security Wheat Reserve Act of 1980 (Title III of the Agricultural Act of 1980, 94 Stat. 2578) is repealed effective on the date of enactment of the Act.

Section 1303(j) provides that section 208 of the Agricultural Trade Suspension Adjustment Act of 1980 (Title II of the Agricultural Act of 1980, 94 Stat. 2573) is repealed effective on the date of enactment of the Act.

Section 1303(k) provides that, effective with respect to the 1986 and subsequent marketing years for wool and mohair--

(1) sections 701, 702, 703, 704, 705, 706, 707, and 708 of the National Wool Act of 1954 (Title VII of Public Law 83-690, 68 Stat. 910-912, as amended) are repealed; and

(2) Public Law 94-312 (90 Stat. 690) is repealed.

Section 1303(l) provides that section 15 of the Agricultural Marketing Act (46 Stat. 18, as amended) is amended by deleting subsection (d) of that section and redesignating current subsections (e), (f), and (g) as subsections (d), (e), and (f), respectively.

TITLE XIV - National Agricultural Research, Extension, and Teaching Policy Act Amendments of 1985

Short Title

Section 1401 provides that this title may be cited as the "National Agricultural Research, Extension, and Teaching Policy Act Amendments of 1985".

Findings

Section 1402 amends section 1402 of the National Agricultural Research, Extension, and Teaching Policy Act of 1977 by revising the congressional findings to delete the no longer valid findings that the work of agencies conducting federally supported research is not fully coordinated, that such agencies have been only partially successful in responding to the needs of all persons affected by their research and useful information produced through their research is not being efficiently transferred to the people, that increased research is necessary to alleviate inadequacies of the marketing system, and that federal funding levels have not been commensurate with needs. In addition section 1402 is amended by revising the congressional findings to recognize changing circumstances and the current need for strengthened national support of cooperative research, extension and teaching efforts in the following areas: (A) Food and agricultural system efficiency; (B) Modern research methods, facilities and equipment; (C) Expanded cooperative relationships among federal, university and private performers of agricultural research; (D) An atmosphere of mutual understanding and trust among federal agencies, the general public, and the private sector on regulatory responsibilities of the federal government; (E) Natural resources; (F) Promotion of the health and welfare of people; (G) Human nutrition; (H) International food and

agriculture; (I) Cooperative extension service; and (J) National Arboretum.

Responsibilities of the Secretary and Coordinating Role of the Department of Agriculture

Section 1403 amends section 1405 of the National Agricultural Research, Extension, and Teaching Policy Act of 1977 by deleting paragraph (11), which required the Secretary to develop in conjunction with others a long-term needs assessment for food, fiber, and forest products and to determine the research requirements necessary to meet such needs. The assessment has been completed.

Joint Council on Food and Agricultural Sciences

Section 1404(a) amends section 1407(a) of the National Agricultural Research, Extension, and Teaching Policy Act of 1977 by extending the term of the Joint Council on Food and Agricultural Sciences, which expires on September 30, 1985, through September 30, 1989. Section 1404(b) amends section 1407(d) of the National Agricultural Research, Extension, and Teaching Policy Act of 1977 by deleting from the statement of the primary responsibility of the Joint Council the requirement to relate Federal budget development and program management to the bringing about of more effective research, extension, and teaching in the food and agricultural sciences by improving planning and coordination; and by deleting from the Joint Council's annual June 30 submission of recommendations on priorities for food and agricultural research,

extension and teaching programs the requirement for specifying the levels of financial and other support needed to carry out such programs.

National Agricultural Research and Extension Users Advisory Board

Section 1405 amends section 1408 of the National Agricultural Research, Extension, and Teaching Policy Act of 1977 by extending the term of the National Agricultural Research and Extension Users Advisory Board, which expires on September 30, 1985, through September 30, 1989. This amendment also provides for an increase in size of the Users Advisory Board from 25 to 28 members to include a representative of the State departments of agriculture, a representative of agricultural economists, and a representative of agricultural educational interests. In addition, this section amends the statement of the specific responsibilities of the Advisory Board by deleting from the requirement for its annual July 1 report to the Secretary its statement of recommendations as to levels of funding among federally supported agricultural research and extension programs; and by deleting from the requirements for its annual February 20 report to the President, the House Committee on Agriculture, the House Committee on Appropriations, the Senate Committee on Agriculture, Nutrition, and Forestry, and the Senate Committee on Appropriations its appraisal of the President's proposed budget for the food and agricultural sciences for the fiscal year.

Secretary's Report

Section 1406 amends section 1410 of the National Agricultural Research, Extension, and Teaching Policy Act of 1977 (1977 Act) by deleting the requirement that the Secretary include in the 1984 report to the President and the Congress on the Nation's agricultural research, extension, and teaching activities the Secretary's needs assessment developed pursuant to section 1405(11) of the 1977 Act because the assessment has been completed and the report issued.

Program of Competitive, Special, and Facilities Grants for Agricultural Research

Section 1407 amends section 2 of the Act of August 4, 1965. Section 2(b) authorizes a program of competitive grants for research to further the programs of the Department of Agriculture. Such grants to the greatest extent possible, are to be allocated to high priority research. Section 2(b) is amended to revise the listing of high priority research areas specifically covered to include: (1) research aimed at the discovery of new scientific principles and techniques that may be applicable in agriculture and forestry; (2) research with emphasis on biotechnology aimed at the development of improved new and innovative products, methods, and technologies which will increase productivity of agricultural and forestry resources; (3) research in food and human nutrition; (4) research in the fields of animal production and health; (5) research in the fields of soil and water; and (6) research to develop industrial uses for agricultural products. In addition, section 2(b) is amended to authorize annual appropriations of such sums as may be necessary for competitive research grants subject to the limitations of the overall authorizations for appropriations in sections 1463 and

1464 of the National Agricultural Research, Extension, and Teaching Policy Act of 1977. Finally, section 1407 adds a new subsection (i) which provides that the Federal Advisory Committee Act and title XVIII of the Food and Agriculture Act of 1977 shall not apply to panels or boards created for the purpose of reviewing applications or proposals submitted under the competitive and special grant programs.

Grants to Establish or Expand Schools of Veterinary Medicine

Section 1408 amends section 1415 of the National Agricultural Research, Extension, and Teaching Policy Act of 1977 by increasing from 4 to 5 percent the percentage of funds appropriated for grants to States to establish or expand schools of veterinary medicine that shall be retained by the Department of Agriculture for administration, program assistance and program coordination.

Amendments to the Research Facilities Act of 1963

Section 1409(a) amends section 1 of the Act of July 22, 1963 (Research Facilities Act) which sets forth the Congressional policy of supporting research at eligible instructions through Federal grant funds to help finance physical research facilities. It is amended to provide that such grants be on a matching basis and that the funds may be used to help finance research equipment as well as facilities as required for the effective conduct of agricultural research and related academic programs.

Section 1409(b) amends section 2 of the Research Facilities Act which provides that the purpose of the Act is to assist eligible institutions in the construction, acquisition, and remodeling of buildings, laboratories, and other capital facilities (including the acquisition of fixtures and equipment which are to become a part of such buildings) which are necessary to more effectively conduct research in agriculture and related sciences through grants. Section 2 is amended to eliminate the requirement that allowable fixtures and equipment include only those which are to become part of research buildings and to provide that the grants be matching grants.

Section 1409(c) amends section 3 of the Research Facilities Act to revise the definition of "State" to include the District of Columbia, Guam, the Virgin Islands of the United States, American Samoa and Micronesia. In addition, it expands the definition of "eligible institution" which currently includes State agricultural experiment stations under the direction of 1862 land-grant colleges, departments otherwise established pursuant to standards prescribed by any State the purpose of which is to conduct agricultural research, the Connecticut Agricultural Experiment Station at New Haven, Connecticut, the Ohio Agricultural Experiment Station at Wooster, Ohio, 1890 land-grant colleges including Tuskegee Institute and institutions receiving funds under the McIntire-Stennis Act. The definition is amended to include departments otherwise established pursuant to standards prescribed by any State the purpose of which is to conduct forestry or veterinary medicine research.

Section 1409(d) amends section 4 of the Research Facilities Act by authorizing annual appropriations in such amounts as may be necessary within the limitations of the overall authorizations for appropriations in sections 1463 and 1464 of the National Agricultural Research, Extension, and Teaching Policy Act of 1977. In addition, it strikes out subsection (b) which established a formula for allocation of amounts appropriated among eligible institutions.

Section 1409(e) amends section 5 of the Research Facilities Act by removing the reference to apportioned funds since, by deletion of the formula, funds will not be apportioned among all eligible institutions annually. In addition, it eliminates the requirement to insure that the facility proposals from States having more than one eligible institution provide for a coordinated research program.

Section 1409(f) amends section 7 of the Research Facilities Act to provide that with respect to multiple-purpose equipment and physical facilities, that portion that is to be used for food and agricultural research and related programs, including forestry and veterinary medicine, shall be the basis of determination of fund support under this Act.

Section 1409(g) repeals section 8 of the Research Facilities Act.

Section 1409(h) amends section 10 of the Research Facilities Act to eliminate a reference to allotment.

Section 1409(i) amends section 11 of the Research Facilities Act to increase from 3 to 5 percent the amount of funds appropriated under the Act that shall be available to the Secretary for administration of the Act.

Grants and Fellowships for Food and Agricultural Sciences Education

Section 1410 amends section 1417 of the National Agricultural Research, Extension, and Teaching Policy Act of 1977 (1977 Act) by eliminating the requirement in subsection (a) that grants authorized thereunder be made without regard to matching funds provided by recipients. The elimination of this requirement will permit weight to be given to those proposals submitted by institutions that propose to share in the costs of the supported activity. In addition, this amendment would require that recipient institutions have a significant commitment to the specific subject area for which a grant is to be used. Finally, section 1410 authorizes annual appropriations for grants and fellowships for food and agricultural sciences education in such amounts as may be necessary within the limitations of the overall authorizations for appropriations in sections 1463 and 1464 of the 1977 Act.

Study

Section 1411 repeals section 1424 of the National Agricultural Research, Extension, and Teaching Policy Act of 1977, which required the Secretary to perform a study assessing the potential value and cost of establishing regional food and human nutrition research centers and to

submit a report thereon to the Congress. The study has been completed and the report has been made.

Human Nutrition Research and Information Management System

Section 1412 repeals section 1427 of the National Agricultural Research, Extension, and Teaching Policy Act of 1977, which required the Secretary of Agriculture and the Secretary of Health and Human Services to formulate and to submit to Congress a plan for a human nutrition research management system. The plan has been submitted.

International Agricultural Research and Extension

Section 1413 amends section 1458(a) of the National Agricultural Research, Extension, and Teaching Policy Act of 1977 by expanding the Secretary of Agriculture's authority to work with developed and transitional countries on food, agricultural and related research and extension to include the provision of technical assistance and advice along with the training of persons from such countries engaged in such activities. In addition, it qualifies the Secretary's authority to assist U.S. colleges and universities in strengthening their capabilities for food, agricultural, and related research and extension relevant to agricultural development activities in other countries by specifically providing that this shall be accomplished through the development of highly qualified scientists from all sectors with specialization in international development.

Weather and Water Allocation Study

Section 1414 repeals section 1460 of the National Agricultural Research, Extension, and Teaching Policy Act of 1977, which required the Secretary to conduct a weather and water allocation study and to report thereon to the President and the Congress. The study has been completed and the report submitted.

Organic Farming Study

Section 1415 repeals section 1461 of the National Agricultural Research, Extension, and Teaching Policy Act of 1977, which required the Secretary to conduct an organic farming study and to report thereon to the President and the Congress. The study has been completed and the report submitted.

Agricultural Research Facilities Study

Section 1416 repeals section 1462 of the National Agricultural Research, Extension, and Teaching Policy Act of 1977, which required the Secretary to conduct a study of the status and future needs of agricultural research facilities and to report thereon to the President and the Congress. The study has been completed and the report submitted.

Authorization for Appropriations for Existing and Certain New Agricultural Research Programs

Section 1417 amends section 1463(a) of the National Agricultural Research, Extension, and Teaching Policy Act of 1977 by consolidating all existing authorizations for appropriations to enable the Agricultural

Research Service to perform agricultural research, demonstration and related activities and authorizing appropriations for such purposes through fiscal year 1989 as follows: $488,000,000 for fiscal year 1986, $500,000,000 for fiscal year 1987, $509,000,000 for fiscal year 1988, and $519,000,000 for fiscal year 1989. Section 1463(b) is amended by consolidating all existing authorizations for appropriations for agricultural research and related programs administered by or funded through the Cooperative State Research Service and authorizing appropriations for such purposes through fiscal year 1989 as follows: $252,000,000 for fiscal year 1986, $270,000,000 for fiscal year 1987, $284,000,000 for fiscal year 1988, and $307,000,000 for fiscal year 1989. In addition, it deletes 1463(c) which provides that not less than 25 percent of the total funds appropriated to the Secretary in any fiscal year for the cooperative research programs provided for under the Hatch Act of 1887 and the McIntire-Stennis Act, the special and competitive grant programs provided for in sections 2(b) and 2(c) of the Act of August 4, 1965; the animal health research program provided for in section 1433 and 1434 of the 1977 Act, the native latex research program provided for in the Native Latex Commercialization and Economic Development Act of 1978; and the research provided for under various statutes for which funds are appropriated under the Agricultural Research heading, shall be appropriated for agricultural research at State agricultural experiment stations under the Hatch Act.

Authorization for Appropriations for Extension Education

Section 1418 amends section 1464 of the National Agricultural Research, Extension, and Teaching Policy Act of 1977 by consolidating all existing authorizations for appropriations for extension and related programs administered by or funded through the Extension Service and authorizing appropriations for such purposes through fiscal year 1989 as follows: $265,000,000 for fiscal year 1986, $272,000,000 for fiscal year 1987, $276,000,000 for fiscal year 1988, and $281,000,000 for fiscal year 1989.

Auditing, Reporting, Bookkeeping, and Administrative Requirements

Section 1419 amends section 1469 of the National Agricultural Research, Extension, and Teaching Policy Act of 1977 (1977 Act) by increasing the amount of appropriations to be retained by the Secretary for the administration of programs authorized under the 1977 Act from 3 to 5 percent except as provided elsewhere in the 1977 Act or any other Act.

General Authority to Enter into Contracts, Grants, and Cooperative Agreements

Section 1420 amends section 1472 of the National Agricultural Research, Extension, and Teaching Policy Act of 1977 by adding a new subsection (b) which authorizes the Secretary to use a cooperative agreement as the legal instrument reflecting a relationship between the Department of Agriculture and State cooperative institutions, State departments of agriculture, all colleges and universities, other research or education institutions and organizations, Federal and private agencies

and organizations, individuals and any other party, when the Secretary determines that the objectives of the agreement will serve a mutual interest of the parties to the agreement in agricultural research, extension and teaching activities, including statistical reporting, and that all parties will contribute resources to the accomplishment of those objectives. Such cooperative agreements may be entered without regard to the provisions of the Federal Grant and Cooperative Agreement Act (now codified in chapter 63 of Title 31, United States Code), which prescribe criteria for executive agencies in selecting and using contract, grant and cooperative agreement instruments. In addition, it would permit any Federal agency to participate in such cooperative agreements by contributing funds through the appropriate agency of the Department of Agriculture or otherwise when it is mutually agreed that the objectives of the agreement will further the authorized programs of the contributing agency.

Restriction on Treatment of Indirect Costs and Tuition Remission

Section 1421 amends section 1473 of the National Agricultural Research, Extension, and Teaching Policy Act of 1977, which provides, in part, that no indirect costs or tuition remission shall be charged against funds in connection with cooperative agreements between the Department of Agriculture and State cooperative institutions. The amendments make this prohibition on the use of funds for the reimbursement of indirect costs not applicable to funds transferred, advanced, or reimbursed to the Department of Agriculture under the provisions of the Foreign Assistance Act of 1961, as amended.

Aquaculture Assistance Programs

Section 1422 amends section 1475 of the National Agricultural Research, Extension, and Teaching Policy Act of 1977 by deleting subsection (e) which requires the Secretary to submit a report to the President and certain Congressional Committees each March 1 on the Department's progress in meeting the purposes of the Aquaculture assistance programs.

Aquaculture Advisory Board

Section 1423 repeals section 1476 of the National Agricultural Research, Extension, and Teaching Policy Act of 1977 which provided for the establishment of an Aquaculture Advisory Board.

Authorization of Appropriations

Section 1424 amends section 1477 of the National Agricultural Research, Extension, and Teaching Policy Act of 1977 (1977 Act) by authorizing annual appropriations for aquaculture assistance programs in such amounts as may be necessary within the limitations of the overall authorizations for appropriations in sections 1463 and 1464 of the 1977 Act. In addition, it deletes the requirement that the Secretary consult with the Aquaculture Advisory Board.

Rangeland Research Advisory Board

Section 1425 repeals section 1482 of the National Agricultural Research, Extension, and Teaching Policy Act of 1977 which provided for the establishment of a Rangeland Research Advisory Board.

Appropriations

Section 1426 amends section 1483 of the National Agricultural Research, Extension, and Teaching Policy Act of 1977 (1977 Act) by authorizing annual appropriations for the rangeland research program in such amounts as may be necessary within the limitations of the overall authorizations for appropriations in sections 1463 and 1464 of the 1977 Act. In addition, it deletes the requirement that the Secretary consult with the Rangeland Research Advisory Board.

Agricultural Research at 1890 Land-Grant Colleges, Including Tuskegee Institute

Section 1427 repeals section 1432(b) of the National Agricultural Research, Extension, and Teaching Policy Act Amendments of 1981 which provided for an annual grant of funds to one 1890 land-grant college for the conduct of a dairy goat research program.

Authority to Award Grants to Upgrade 1890 Land-Grant College Research Facilities

Section 1428 amends section 1433 of the National Agricultural Research, Extension, and Teaching Policy Act Amendments of 1981 to clarify that grants made under this section to assist 1890 land-grant colleges in the acquisition and improvement of research facilities may

be used for the acquisition and improvement of agricultural libraries. In addition, it extends the authorization for appropriations for such grants for one additional year through fiscal year 1987, subject to the limitations of the overall authorizations for appropriations in sections 1463 and 1464 of the National Agricultural Research, Extension, and Teaching Policy Act of 1977.

Soybean Research Advisory Institute

Section 1429 repeals section 1446 of the National Agricultural Research, Extension, and Teaching Policy Act Amendments of 1981 which established a temporary Soybean Research Advisory Institute to assess and to make a comprehensive report on research on soybean production and utilization. The report has been made and the Institute dissolved.

Amendment to the Smith-Lever Act

Section 1430 amends section 3(b) of the Smith-Lever Act which establishes the base amount of funds to be allocated to each State annually for cooperative extension work. The amendment adds a new paragraph 3 which permits Congress through appropriate provision in an appropriation act to transfer funds previously made available to the States under section 3(d) of the Smith-Lever Act to the subsection 3(b)(1) base. Once incorporated in the 3(b)(1) base, the transferred funds would remain available for the same purposes, and subject to the same administrative limitations and distribution among the States, that applied when the funds were appropriated under section 3(d).

TITLE XV - Resource Conservation

Definitions

Section 1501 sets forth definitions for certain terms which are used in this Title:

(1) "Agricultural commodity" is defined as any agricultural commodity planted and produced by annual tilling of the soil, or on an annual basis by one trip planters. This definition excludes perennials such as fruit and nut trees and grape vines.

(2) "Field" means that term as defined by the Secretary, except that any highly erodible land on which an agricultural commodity is produced after the date of enactment of this Act and which is not exempt under section 1503 of this Title is to be considered as part of the field on which such land was included on such date of enactment.

(3) "Highly erodible land" is defined as land that has an excessive rate of erosion as determined by the Secretary.

Program Ineligibility

Section 1502 provides that, following the date of enactment of the Act, any person who during any crop year produces an agricultural commodity on highly erodible land on a field on which such highly erodible land is the predominant class will be ineligible for that crop

year for (1) any program benefits made available through the Commodity Credit Corporation or by the Agricultural Stabilization and Conservation Service; (2) any loan assistance made available through the Farmers Home Administration; or (3) crop insurance under the Federal Crop Insurance Act. Exceptions to this prohibition are contained in section 1503.

Exemptions

Section 1503(a) provides that the prohibitions of section 1502 shall not apply to any person who, during any crop year, produces any agricultural commodity on highly erodible land on a field on which such highly erodible land is the predominant class if all the commodities produced on highly erodible land by such person during that crop year were--

(1) produced on any land that was cultivated to produce any of the 1975 through 1985 crops of agricultural commodities;

(2) planted before the date of enactment of the Act;

(3) planted during any crop year beginning before the date of enactment of the Act; or

(4) produced (A) in an area within a conservation district under a conservation system that has been approved by a conservation district after it has been determined that the conservation system is in conformity with technical standards set forth in the Soil Conservation Service

technical guide for that conservation district, or (B) in an area, not within a conservation district, under a conservation system determined by the Secretary to be adequate for the production of such agricultural commodity on highly erodible land.

Section 1503(b) provides that the prohibitions of section 1502 shall not apply to any person who produces an agricultural commodity on any highly erodible land during any crop year if such land was planted in reliance on a determination by the Soil Conservation Service that such land was not highly erodible land. However, the exemption allowed by section 1503(b) shall not apply to any crop which was planted on any land after the Soil Conservation Service determines such land to be highly erodible land.

Section 1503(c) provides that the prohibitions contained in section 1502 shall not apply to any loan made before the date of enactment of the Act.

Regulations

Section 1504 provides that the Secretary may issue such rules and regulations as the Secretary determines to be necessary in order to carry out the provisions of this Title. Pursuant to this authority, the Secretary may determine, among other things, whether an agricultural commodity has been "produced" on highly erodible land during a crop year, as that term is used in section 1502.

TITLE XVI - Agricultural Credit

Farm Real Estate Interest Rates

Section 1601 amends Section 307(a) of the Consolidated Farm and Rural Development Act to increase from one to one and one-eighth percent the maximum additional charge that may be added to the interest rate on a farm real estate loan.

Sale of Notes on Nonrecourse Basis from Agricultural Credit Insurance Fund

Section 1602 clarifies the existing authority of the Secretary to sell any notes evidencing loans funded out of the Agricultural Credit Insurance Fund to private parties. The clarification specifies that among the other bases that the sale may be on is a nonrecourse one and free of any statutory or regulatory benefits that might accrue to the borrower if the borrower were to remain indebted directly to the Secretary.

Sale of Notes on Nonrecourse Basis from Rural Development Insurance Fund

Section 1603 clarifies the existing authority of the Secretary to sell notes evidencing loans funded out of the Rural Development Insurance Fund in the same manner that section 1802 does regarding loans funded out of the Agricultural Credit Insurance Fund.

Operating Loan Interest Rate

Section 1604 amends Section 316(a) of the Consolidated Farm and Rural Development Act to increase from one to one and one-eighth percent the maximum additional charge that may be added to the interest rate on an operating loan.

Emergency Loan Interest Rates

Section 1605 amends Section 324 of the Consolidated Farm and Rural Development Act to provide that that disasters occurring on or after October 1, 1985, emergency loans to those applicants who could not obtain sufficient credit elsewhere, be at a formula rate based on the Government's cost of borrowing, with an additional charge of up to one and one-eighth percent. This would be a change from present statutory requirements that an emergency loan for an applicant's actual loss be at a rate not in excess of 8 percent if the applicant cannot obtain credit elsewhere. Loans to applicants who could obtain credit elsewhere would continue to be made at prevailing private market rates.

Crop Insurance as Affecting Emergency Loan Eligibility

Section 1606 provides that, for disasters occurring on or after October 1, 1985, emergency disaster loans will not be made to producers for crop losses if federal crop insurance was available at the time of the disaster to cover those crops damaged by the disaster. Section 1606 also provides that, in such cases, a producer cannot use the damaged crop to calculate the percentage of production loss sustained by that

producer as required by section 329 of the Consolidated Farm and Rural Development Act.

Only Guaranteed Farmer Program Loans to be Made; Limited Exception, Guarantee Limits

Section 1607 provides that, starting with fiscal year 1986, no farm real estate, operating, or disaster emergency loan shall be made as an insured loan by the Secretary. These loans could only be made by private lenders and guaranteed by the Secretary. The one exception is that for fiscal years 1986 through 1990 insured loans for annual farm operating purposes could still be made by the Secretary providing they were only made to existing borrowers of the Secretary who already had loans under Subtitle B of the Consolidated Farm and Rural Development Act for annual farm operating purposes and whose loans were in existence as of the date section 1607 is enacted. Section 1607 also imposes a specific statutory limitation--starting with fiscal year 1986--on the percentage of guarantee by the Secretary of any loss sustained on the principal and interest of any farm real estate, operating, or disaster emergency loan. The percentage limit on such farm loan guarantees will be 75 per centum; however, the limit can be raised to 90 per centum in the discretion of the Secretary and if the Secretary determines that the request for a guarantee involves a hardship case.

TITLE XVII - Miscellaneous

Family Farm

Section 1701 amends section 102(b) of the Food and Agriculture Act of 1977 (7 U.S.C. 2266(b)) to require that the Secretary of Agriculture submit to Congress a report containing current trends in family operations and comprehensive data on nonfamily farm operations every other year, rather than every year as required under current law, and to make less specific the requirements for what is to be contained in the report. The purpose of these changes is to reduce the frequency of the family farm report given the relatively minor year-to-year changes, and to allow greater flexibility in reporting.

User Fees for Reports, Publications and Software

Section 1702 amends section 1121 of the Agriculture and Food Act of 1981 to expand the authority of the Secretary to collect and retain user fees for the provision of pamphlets, reports, or other publication. Previously, user fees were collected and retained only for pamphlets, reports, or other publications provided by the Economic Research Service or the Statistical Reporting Service. The amendment extends the authority to all offices and agencies of the Department of Agriculture. In addition, this section specifically includes software programs in the list of items for which a user fee may be charged and retained by the providing office or agency. It also would allow the collection and retention of user fees for materials published electronically, as well as in traditional hard copy.

Commodity Credit Corporation Reimbursement

Section 1703 provides for a permanent appropriation to reimburse the Commodity Credit Corporation for sustained or anticipated net realized losses.

TITLE XVIII - Effective Date

Section 1801 provides that, except as otherwise provided in the Act, the provisions of the Act shall become effective on enactment.

AGRICULTURAL ADJUSTMENT ACT OF 1985

QUESTIONS AND ANSWERS

I. GENERAL BACKGROUND AND OVERVIEW

II. PROGRAM AND POLICY PROVISIONS

Title I:	Agricultural Trade and Export Expansion
Title II:	Wheat
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Title XV:	Resource Conservation
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Title XVIII:	Effective Date

AGRICULTURAL ADJUSTMENT ACT OF 1985
QUESTIONS AND ANSWERS

I. GENERAL BACKGROUND AND OVERVIEW

1. Q. Why is the Reagan Administration proposing omnibus farm legislation that is market oriented in its approach?

   A. It has become clear to many, both inside and outside of government, that existing farm policies and programs are not serving agriculture well. The basic program tools--nonrecourse loans, direct payments and supply control programs--have been in use for more than 50 years and have changed more in form than in substance. Supply control programs have proven to be particularly ineffective. In the meantime, agriculture itself has changed much in composition and orientation. Agricultural policy needs to adopt to the changing dynamics of the agricultural sector. That requires that agricultural policy be flexible to adjust to changing economic conditions. A market-oriented approach will provide that flexibility.

2. Q. Why can't we, as some suggest, simply "fine tune" and "tighten up" our existing farm programs and policies and make them more effective?

   A. Our rigid farm programs cannot adjust to changing market conditions and have recently been working against, rather than for, agriculture. Rigid price support levels, set above world-market clearing levels for some commodities, have encouraged excessive production and stock accumulation and have contributed to our loss of world markets. High target prices have been inducing increased production both here and abroad. Moreover, they provide a price umbrella for our competitors. As we are forced to pursue acreage reduction programs because of the high target prices, other countries have expanded production and their share of world trade at the expense of U.S. producers and taxpayers.

   Some have proposed that acreage reduction programs be tightened by using strict rules and regulations, such as cross-compliance and offsetting compliance. However, any time such rules are enacted or proposed to be used, they are met with strong opposition by the Congress. For example, in 1984 Congress required USDA to count summer fallow land as conservation use acres (CUA), and that CUA rules for 1984 crops be no more restrictive than in 1983. Thus, it is unrealistic to expect restrictive rules to stay in place very long.

3. Q. There are some who would prefer to move towards stricter production controls and higher price supports. Why is the Administration not considering this type of policy?

A. A review of two programs which have operated under such a system, peanuts and tobacco, provides much insight of the effects of moving in that direction. In 1930, the U.S. harvested 1.1 million acres of peanuts. By 1980, 50 years later, harvested acreage increased only slightly to 1.4 million acres. Per capita production of major peanut products has remained virtually unchanged since the mid-1960's. For tobacco, U.S. production has declined by about 10 percent over the past 20 years, while world production has doubled. Meanwhile, our share of world tobacco trade has dropped by about 50 percent due to high and escalating support prices that have made the U.S. less competitive in world markets.

There is considerable evidence that tight controls on these commodities did not, over the long run, benefit farmers; instead, the economic value of the quotas and allotments has been captured by landowners in increased land values and higher leases. In the long-run, a move to mandatory controls would further reduce the overall competitiveness in U.S. agriculture's continued loss in world trade share, and result in less total economic activity in the sector.

4. Q. Why don't we maintain current price and income supports and subsidize our surplus production onto the international market, similar to the European Economic Community's Common Agricultural Policy?

A. With no supply controls, farmers would be expected to respond to the current price incentives and expand production. However, the marketplace could not be expected to support both high price supports and expanded production in domestic markets. In order to subsidize exports, marketing boards or dual pricing systems would have to be put in place. Domestic prices would be set higher than world prices, and either direct government subsidy or revenues earned through domestic sales would be used to buy down the price of commodities entering foreign markets. Government costs would skyrocket. Although farm income may rise in the short run, higher values and incomes would be bid into higher land prices, more inputs would be used, higher production costs would result, and ultimately we would have a less efficient and competitive agricultural sector.

The European Economic Community (EEC) has been under financial pressures as government costs have steadily increased, exceeding $16 billion last year even with the high value of the U.S. dollar. If the U.S. moved to a system similar to the EEC, CCC outlays would increase to unsustainable levels, pressures would likely increase for more protectionist measures and each country would resort to using its Treasury to compete against one another.

5. Q. Presently, there appears to be no consensus in agriculture on which direction agricultural policy should take. Why do you think a majority of those in the agricultural sector will support a more market-oriented agricultural policy?

A. While there may not be a consensus on the type of agricultural policy we should have, most farmers agree that they would rather receive their income from the marketplace than from the government. In addition, they also want a long-term consistent agricultural policy that they can depend on year after year. Finally, most of those concerned with the agricultural sector want long-term and effective solutions to two very important problems facing agriculture--soil and water erosion and agricultural credit. The Administration's proposal--the Agricultural Adjustment Act of 1985--provides for those goals and objectives.

6. Q. What are the goals and objectives of the AAA of 1985?

A. The AAA of 1985 provides a comprehensive approach for agricultural policy that is market-oriented and long-term in design. The AAA of 1985 contains the following goals and objectives:

1. Long-Term Design. Unlike previous omnibus farm bills, this legislation clearly states the direction of farm policy from the mid-1980's through the end of the twentieth century, rather than another four years.

2. Market Orientation. Price and income supports for all commodities will ultimately be based on nonrecourse loan or price support rates at 75 percent of the applicable three-year moving average of U.S. market prices for each respective commodity. Authorities under permanent legislation would be repealed.

3. Consistency. For the first time, omnibus farm legislation will provide consistency among commodity programs and other agricultural policies. International trade, natural resource conservation, agricultural credit, research, and grain reserve policies and programs are integrated with the objectives of the commodity programs in order to ensure government programs and policies are not working at cross purposes, as they often have in the past.

4. Transition Program. The legislation provides for an orderly transition period of five years through all commodity titles as well other programs. It phases out obsolete and unnecessarily restrictive programs and phases in the market-oriented provisions.

5. Equity. At the end of the transition period producers would be put on an equal footing since, after five years, all commodities would be treated identically and guaranteed the same relative level of price support.

7. Q. There are several programs and policies mentioned that have not been included in past farm bills. Could you be more specific regarding the programs and policies in the AAA of 1985?

A. The following is a general description of the major provisions of the AAA of 1985:

- Domestic Market Farm Programs. They will enable producers to make long-term decisions without the constant threat of direct or indirect government intervention. They will provide for a transition from high and rigid price supports to flexible and market-clearing price supports that producers will be able to rely on for their well-being. Acreage reduction programs, quotas and allotments would also be phased out over the transition period. The authorities under existing permanent legislation that affect each particular commodity would be repealed. A single, limited food assistance grain reserve would be established for wheat and feed grains.

- Export and Trade Orientation. These provisions are consistent with the domestic farm program provisions, and would include three broad objectives. First, it is clearly stated that no restrictions shall be imposed on agricultural exports for either short-supply reasons (rising domestic prices) or for foreign policy reasons. Second, the United States must enter into multilateral negotiations with our key trading partners and implement a program to reduce restrictive trade practices in the agricultural sector. Third, farm income will be increased through fair and expanded trade in agricultural exports.

- Resource Conservation. The Secretary would be required to implement "sodbuster" provisions which would stipulate that any person who produces an agricultural commodity on highly erodable land, which had not been in production for the preceding 10 years, would be ineligible for any direct or indirect Federal agricultural program benefits.

- Agricultural Credit. The legislation substitutes multi-peril all risk crop insurance for the Farmers Home Administration (FmHA) emergency lending program. In addition, the legislation shifts from direct to guaranteed lending on all FmHA loans for new borrowers beginning in FY 1986. The legislation provides for a phasing out of existing direct operation loans by FY 1990.

- Agricultural Research. The focus of agricultural research would shift more from production concerns to farm profitability, with emphasis on cost reducing technologies, improved pest and drought resistance, new uses for agricultural products, and more efficient marketing and management approaches.

8. Q. Why is the AAA of 1985 extended to the year 2000, rather than for four years, as traditionally has been the case with omnibus farm legislation?

A. The 1981 Farm Bill was written with rigid price and income supports that were scheduled to increase each year by specified and mandated amounts. Those provisions were based on an economic environment that never materialized. As a result, the legislation worked against rather than for agriculture. More importantly, the legislative changes necessary to respond to changes in economic conditions--i.e., changes in the dairy program and target price freezes--did not come easily or without significant costs.

At the same time, farmers have struggled from year to year not knowing what kind of farm programs to expect and when they will be implemented. Like all businesses, farmers need to make long-term plans regarding capital investment and management decisions. However, it is impossible to make these decisions not knowing the general direction of U.S. agricultural policies and programs. That is why it is necessary to have legislation in place that is that long-term and consistent, and that allows farm programs and policies to adapt to changes in economic conditions.

9. Q. Isn't the AAA of 1985 a fairly radical approach to addressing future farm policy?

A. It is radical to the extent that it makes a break from the past and proposes reasonable solutions. It is radical to the extent that it is not restrictive, phases out supply management programs, and most important, is not temporary in terms of either design or objectives. In other words, it is almost the exact opposite of our current farm legislation. While it makes dramatic changes in the way we address farm policy, it provides a five-year transition period to implement those changes. This legislation is based on establishing the necessary priorities for agriculture. It makes some difficult choices, but does it in a fair and compassionate way.

10. Q. How is it possible to make loan or price support levels for all program commodities market-oriented given the diverse programs, the varying supply/demand situations, commodity characteristics and industry structures that exists for each commodity?

A. This legislation recognizes that there are major differences among the major commodities. As such, each commodity has a five-year transition period to phase out obsolete programs and phase in market-oriented price supports. Since there are vast differences in existing commodity programs, the transition of each commodity to an equal footing at the end of five years will not operate precisely in the same way. However, under the AAA of 1985, all producers of each program commodity will receive price support during as well as after the transition period. Different adjustments are made for some commodities (explained under Section II - Program and Policy Provisions) during the transition period in an effort to put all commodities in both a fair and equitable position at the end of five years.

11. Q. Consistency among commodity programs and other agricultural policies is mentioned as a primary objective of the AAA of 1985. Precisely, how are these provisions consistent, particularly in contrast to current government policies and programs?

A. First, all commodities will move in a market-oriented direction. At the end of five years, all commodities will be given the same relative level of price support on their production. Currently, price supports for some program commodities are set above market-clearing levels and are based on outdated formulas, irrespective of the current economic conditions. The one clear exception is the current provision for soybeans. The price support provisions of the AAA of 1985 are patterned after the current soybean program in order to achieve flexible, market-clearing price supports.

Second, this legislation contains only limited authority for acreage reduction programs. It has been demonstrated time and again that supply control programs have not been effective or made the sector more prosperous. And, while the United States has willingly continued to unilaterly implement programs to reduce production, our foreign competitors have responded by increasing their production and their world market shares.

Third, in addition to high price supports, target prices have had several unintended consequences such as raising land prices and production costs, reducing our competitiveness in world markets and encouraging farmers to expand acreage even under surplus conditions. Under this legislation, target prices are based on a declining annual percentage of a three-year moving average of U.S. market prices.

Fourth, moving to a more market-oriented agricultural policy will allow the United States to become even more competitive in world markets. In addition, the United States will be provided with the ability to work through GATT to eliminate major trade barriers or unfair trade practices and promote policies that achieve more "open" access to markets.

Fifth, sodbuster provisions are proposed to prevent crop production on highly erodible land that has resulted in a misallocation of resources and contributed to our soil and water erosion problems.

12. Q. This legislation has only limited authority for acreage reduction programs. Does this also pertain to other supply control programs such as quotas and allotments? With limited supply control programs in place, won't excessive surpluses result in a relatively short time?

A. Current authority under the so-called "permanent law" would be repealed. There would be a phase-out of authority for acreage reduction programs and the immediate elimination of quotas, allotments, and other restrictive statutes. However, in the

case of peanuts and tobacco, producers who have historically held allotments and/or quotas would receive a direct payment that is based on an annual declining percentage of a three-year moving average of U.S. market prices.

Initially, some producers may choose to increase production of some commodities by not complying with the voluntary acreage control program. However, they would be expanding with the knowledge that they would not receive loan and target price protection on any of their production and that the price and income supports will be moving towards market-clearing levels over a period of five years.

Voluntary acreage reduction programs (ARP) for wheat, feed grains, cotton and rice would be in place for three years through the 1988 crop year. The level of ARP would decline each year and would be phased out entirely beginning with the 1989 crop year and thereafter.

13. Q. How and why is the payment limitation lowered and what effect will that have on program participation and, ultimately, upon the agricultural sector?

A. This legislation contains provisions for a declining payment limitation on all commodity programs where producers are eligible for potential deficiency payments. However, the limitation has been sharply reduced from the current $50,000 level to $20,000, and declines to $10,000 for the 1988 crop year.

Given the current structure of agriculture, a relatively small number of large farms produce a large portion of program crops. In general, about 10 percent of U.S. farmers produce about two-thirds of the total output and do not depend on farm programs to supplement family incomes. Conversely, about two-thirds of the producers produce 10 percent of the output and receive about five-sixths of their family income from off-farm sources. Thus, it is about one-fourth of the producers who most rely on farm program benefits and who will most likely need assistance under future agricultural legislation. However, the top 13 percent of farms account for 45 percent of direct payments while 71 percent of the farms receive 22 percent of the payments.

In order to provide payments to those most in need, it is essential to target payments to producers who do not have large operations or obtain most of their family income from nonfarm sources. In addition, it is imperative that the Federal budget deficit be brought under control. Without some limit on the amount of direct payments to producers, large budget exposure is possible.

Limiting direct payments to farmers to $20,000 per person in 1986, $15,000 in 1987, and $10,000 in 1988 and thereafter would ensure that payments would reach those operators in greatest need of assistance and would not exclude many farmers. For example, in 1981 only 2 percent of farmers receiving government

payments would have lost benefits had a $10,000 payment limitation been in effect. In 1982, cash grain producers with sales between $40,000 and $100,000 received an average of $5,500 in government payments.

II. PROGRAM AND POLICY PROVISIONS

Title I: Agricultural Trade and Export Expansion Programs

o Objectives

A. To increase farm income through fair and expanded trade in agricultural products.

B. To enhance the reliability of the United States as a supplier of agricultural commodities by eliminating the use of agricultural embargoes and by guaranteeing sanctity of export contracts.

1. Q. What are the major provisions of the agricultural trade title?

   A. The major provisions include:

   o Agricultural Trade Policy

   A. The U.S. Government is committed to:

      1. Promoting open access in world markets for U.S. agricultural exports by negotiating with our key trading partners to reduce restrictive trade practices in the agricultural sector.

      2. Reducing or eliminating U.S. restrictions on agricultural imports in exchange for similar concessions on the part of our trading partners.

      3. No restrictions will be imposed on agricultural exports because of rising domestic prices (short-supply reasons). In addition, an embargo on agricultural products shall not be used as an instrument of foreign policy except in extreme situations and only then as part of a broader embargo.

      4. Protect the sanctity of existing export contracts for the sale of agricultural commodities in the unlikely event of an embargo.

   B. The Secretary of Agriculture shall:

      1. Determine which countries are adversely impacting trade in specific agricultural products through the use of trade barriers or unfair trade practices.

      2. Assess the use of major foreign trade barriers or unfair practices and their impact on the U.S. agricultural exports.

      3. Report the findings to Congress.

C. The U.S. Trade Representative shall:

1. In administering its responsibilities under Section 181 of the 1984 Trade Act 1/, perform a separate analysis regarding acts, policies and practices which constitute significant barriers to, or distortions of, exports of U.S. agricultural commodities. A separate estimate of the impact of these practices on U.S. commerce should be included in a report to the Committees on Agriculture in the House and Senate as well as to the Finance and Ways and Means Committees.

2. In conjunction with the Secretary of Agriculture, seek to eliminate those major trade barriers or unfair trade practices identified. In the event that by July 1, 1986, negotiations to remove or reduce such barriers, including export subsidies maintained by other countries, are not progressing satisfactorily, the U.S. Trade Representative and the Secretary of Agriculture shall submit to the Congress a report indicating what actions will be taken to offset the effects of trade barriers and unfair trade practices and to secure adequate progress in the negotiations. In drawing up this report, greater use of long-term credit, special sales of CCC stocks, export or export credit subsidies and bilateral trade agreements shall be considered.

D. The President shall:

Recommend a plan to the Congress to phase out by September 30, 1990, all major agricultural trade barriers imposed on foreign products entering the U.S. market in return for comparable action eliminating agricultural trade barriers by foreign countries.

o <u>Export Expansion Programs</u>

A. Short-term Credit

1. The Secretary of Agriculture is required to continue the GSM-102 Export Credit Guarantee program at a level consistent with the credit needs of importing countries for U.S. agricultural commodities when creditworthiness requirements are fulfilled and such credit requests serve to increase short-term demand for U.S. agricultural

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1/ Pursuant to Section 181 of the Trade Act of 1984, as amended, the USTR is required to identify and analyze acts, policies, or practices which constitute significant barriers to or distortions of U.S. exports and to make an estimate of the trade-distorting impact of such acts, policies or practices on U.S. commerce. The USTR must submit an annual report on this analysis and estimate to the Committees on Finance and Ways and Means.

exports, build longer-term markets or improve the competitive position of U.S. agricultural exports in world markets.

B. P.L. 480 program is reauthorized.

C. Market Development

1. The Administration is committed to continue strong and effective market development programs for agricultural products.

2. Require the Secretary of Agriculture to evaluate the effectiveness of existing market development programs and report to Congress within one year as to ways in which they may be improved.

2. Q. The agricultural trade policy outlined in Title I would appear to be in direct conflict with the trade practices of many of our competitors and trading partners. How does this legislation deal with that possible confrontation?

A. First, a five-year transition period is provided for which allows the United States to fully determine the extent of trade restrictions and the impact of these restrictions on U.S. agricultural products that enter foreign markets.

Second, at the same time, the United States will likely have begun negotiations on another round of talks with signatory members of the General Agreement of Tariffs and Trade (GATT) in 1986. This will complement the process of identifying these restrictions, assessing their impact, and negotiating reductions.

Third, by 1990, a report will be submitted by the President to the Congress identifying what actions will be taken to offset the impact of the identified trade restrictions.

Fourth, during this process, U.S. domestic farm policy will be moving towards more market orientation. At the end of five years, the U.S. agricultural sector should be positioned to be more competitive and able to reduce the barriers it now has in place.

In essence, the process of promoting open access in world markets for U.S. agricultural exports will be phased in over a five-year transition period. This will provide ample time for U.S. agriculture to be able to make trade concessions and more importantly obtain mutual reductions in trade restrictions from our major trading partners.

3. Q. How will U.S. producers view this approach to agricultural trade policy?

   A. Most producers would rather receive a price for their commodities from the marketplace than from government programs. To that extent, most producers are willing to accept a more market-oriented domestic farm policy, but only if they are guaranteed reasonable and fair access to world markets. To do that, the Federal Government must be willing to stand behind U.S. farmers and guarantee them this access. That requires negotiations with key trading partners to reduce restrictive trade practices. It also requires that the Federal Government guarantee that it will no longer impose embargoes or other restrictions on U.S. agricultural products for either short-supply or foreign policy reasons. The only exception would involve extreme situations and only then as a part of a broad embargo where sacrifices are shared by all economic sectors.

4. Q. How will existing cases of trade violations and unfair practices of our trading partners be handled during this interim process of identifying and analyzing the adverse impact of trade restrictions?

   A. The comprehensive review by the U.S. Trade Representative, in conjunction with USDA, will in no way impede the ongoing process of seeking a resolution to existing trade cases, nor deter continuous negotiations that take place with our trading partners. Indeed, the review and analysis will complement the existing process and should help in the next round of negotiations of GATT. These provisions will only serve to demonstrate the resolve of the United States to seek more open access to world trade and provide for a timely transition period in order to reach these objectives.

5. Q. This legislation proposes the reauthorization of some existing export expansion programs. What are the major objectives of these programs and how will they complement the domestic farm policy?

   A. With the adoption of a more market-oriented policy for U.S. agriculture, farmers will depend to a greater extent on export markets for the generation of farm income. However, if a market-oriented policy is to benefit U.S. agriculture, the United States must implement a coordinated set of domestic and export market policies which enable U.S. exporters to compete in world markets and guarantee access to importing country markets. Thus, U.S. export programs must be designed to ensure that the United States is a reliable supplier and must enable U.S. exporters to meet the price and credit terms offered by competing exporters.

Titles II and III: Wheat and Feedgrains

1. Q. What are the major provisions of the wheat and feedgrain titles?

   A. The major provisions include:

   - Loan rates based on 75 percent of national average prices received by producers of each of the respective commodities during the immediately preceding three years.

   - Nonrecourse loans are for nine months.

   - Nonrecourse loans are limited to $200,000 to any producer for all commodities on all farms in which the producer has an interest. Loans in excess of $200,000 are recourse loans.

   - The Secretary shall establish separate loan rates and target prices for different classes of wheat.

   - Target prices for both wheat and feedgrains are calculated on an annual declining percentage of the three-year moving average of U.S. market prices at the following levels:

Crop year	Target price
	Percentage of 3-year moving average U.S. market prices
1986	100%
1987	95%
1988	90%
1989	85%
1990	80%
1991	75%
Thereafter	75%

   - Deficiency payments are equal to the crop (or class) target price minus the national season average price times the harvested production of the crop on the farm.

   - A voluntary acreage reduction program will be offered at the following levels: 15 percent-1986 crop year; 10 percent-1987 crop year; 5 percent-1988 crop year. For the 1989 crop year and thereafter, the authority for acreage reduction or other supply control programs would be eliminated.

   - For crop years 1986, 1987, and 1988, producers must comply with the voluntary acreage reduction program in order to receive loan and target price benefit.

- o Feedgrains included are corn, sorghum, and barley.

- o Authorities under permanent legislation that affect wheat, corn, sorghum, rye, barley, and oats would be repealed.

2. Q. Traditionally, nonrecourse loans have been a major component of farm commodity programs. The AAA of 1985 proposes to use nonrecourse loans up to a level of $200,000, at which point they become recourse. How would these nonrecourse and recourse loans work?

   A. With nonrecourse loans, when market prices are low, farmers can use the commodities they produced as collateral for Federal loans. If prices fail to rise above loan levels, farmers can forfeit their collateral to the Commodity Credit Corporation (CCC) up to a level of $200,000 of outstanding loans. With recourse loans, farmers can secure loans from the government by pledging their commodity as collateral. At the end of the loan period, the producer would be obligated to repay the loan with interest, which more closely approximates normal commercial lending practices. In the event the recourse loan is not repaid, the government will have further recourse against the borrower in the form of penalties and denial of other program benefits. For instance, if a producer defaulted or was unable to repay the loan, the equivalent amount of the loan plus interest could be deducted from potential deficiency payments that producers are eligible to receive. In addition, the producer can be denied any future program benefits if he failed to repay his recourse loan.

3. Q. Why are the loan rates based on a percentage of the three-year moving average of U.S. market prices?

   A. Basing loan rates on previous market prices has the advantage of allowing loan rates to adjust to changes in the competitiveness of our agricultural products abroad and still provide provide a safety net to farmers. Setting loan rates on the basis of a three-year moving average of past market prices limits the effects of extreme weather-related price fluctuations on later loan rates, yet provides for appropriate adjustments as economic conditions change. In addition, it removes the tendency for high and inflexible loan rates to be capitalized into the value of fixed assets.

   Setting the loan rate at 75 percent of a three-year moving average helps to ensure that the loan rate remains below market-clearing commodity prices in all but extreme situations. For instance, in situations when a period of short supplies and high commodity prices was followed by a period of excess supplies and low market prices, loan rates determined by past prices could possibly exceed cost of production and long-term market-clearing prices. However, basing loan rates on a fraction of past prices will most likely minimize the extent of market interference.

4. Q. The Secretary is required to establish separate loan rates for different classes of wheat. What is the reasoning for multiple loan rates?

   A. In the past, the wheat program has operated under a single loan rate, although there are five major classes of wheat grown in the United States. However, pricing problems can arise since the various classes are grown in distinct regions, have different end uses, and are each marketed differently. Establishing separate loan rates will allow each class or type of wheat to have a loan rate that accurately reflects its use and value.

5. Q. What is the rationale for basing target prices on an annual declining percentage of the three-year moving average of U.S. market prices? It would appear that after five years, target prices would no longer exist. Are you not phasing them out?

   A. Typically, target prices have been set above market-clearing levels and mandated over a period of time, such as occurred in the 1981 Farm Bill. This has effectively guaranteed that acreage reduction programs would be required in order to ensure that market prices were at least nearer to predetermined levels. As target prices escalations force greater cutbacks and prices move up, our competitors produce more and take over our markets. As our markets dwindle, even larger cutbacks are necessary. Thus, it is important that target prices do not interfere with the signals from the marketplace. Otherwise, they lead to increased production costs, reduced competitiveness, increased production abroad and larger surpluses in the long-term.

   Basing target prices on the same concept as loan rates will allow for an income transfer but not interfere with market-clearing levels. By providing for a five-year transition, agriculture will become more competitive and overcapacity will be reduced to the point that producers can rely on the marketplace for their well-being and, for the most part, remove the necessity for an income transfer mechanism. However, if under extreme conditions the price fell below the target price, producers would still be provided a form of direct assistance.

6. Q. The legislation repeals authorities under permanent legislation and phases out those for supply control programs. Both wheat and corn, particularly in recent years, have had large surpluses. Without continued supply management programs, how will this legislation prevent the buildup of the existing surpluses?

   A. The incentive to producers to expand production will be heavily influenced by the level of loan and income price supports. With loan and target rates established below market-clearing levels, producers will more readily respond to signals in the marketplace and make production adjustments accordingly. In addition, producers will be able to obtain and receive price protection

and program benefits for most of their production by complying with the voluntary acreage reduction programs in the first three years.

Thereafter, the authority for acreage reduction or any other type of supply control program would no longer be in effect. Thus, the incentive to initially expand production outside the programs will be lessened as those producers will not benefit from high support rates or by increasing the size of their base for the purpose of future programs.

7. Q. What cropland acreage base will be used under the acreage reduction program to determine the amount of acres planted for each farm?

   A. The acreage base for a farm for any crop will be the average acreage of the three crop years immediately preceding the year for which the determination is made.

Titles IV and V: Cotton and Rice

1. Q. What are the major provisions of the cotton and rice titles?

   A. The major provisions include:

   - Loan rates based on 75 percent of national average prices received by producers of each of the respective commodities during the immediately preceding three years.

   - A nine-month loan period.

   - Nonrecourse loans are limited to $200,000 to any producer for all commodities on all farms in which the producer has an interest. Loans in excess of $200,000 are recourse loans.

   - The Secretary shall establish separate loan rates and target prices for each type of rice.

   - The Secretary shall establish separate loan rates and target prices for upland cotton and extra-long staple (ELS) cotton.

   - Target prices for each of the respective commodities are calculated on an annual declining percentage of the three-year moving average of U.S. market prices for each of the respective commodities at the following levels:

	Target Price
Crop Year	Percentage of 3-year moving average U.S. market prices
1986	100%
1987	95%
1988	90%
1989	85%
1990	80%
1991	75%
Thereafter	75%

   - A voluntary acreage reduction program willbe offered at the following levels: 15 percent-1986 crop year; 10 percent-1987 crop year; 5 percent-1988 crop year. For 1989 crop year and thereafter authority for acreage reduction or other supply control programs would be eliminated.

   - Deficiency payments are equal to the crop target price minus the national season average price times the harvested production of the crop of the farm.

- For crop years 1986, 1987 and 1988, producers must comply with the voluntary acreage reduction programs in order to receive loan and target price benefits.

- Authorities under permanent legislation as they affect cotton and rice will be repealed.

2. Q. The price support for cotton is currently based on either the lower of 85 percent of the average spot market price for upland cotton or 90 percent of the average Northern European price for upland cotton. Why is the price support under this legislation being set on the basis of 75 percent of the three-year moving average of U.S. market prices?

   A. As with all price supports, the loan rate should be market-oriented and remain below market-clearing prices in all but extreme situations. While the cotton loan rate is more market-oriented than most, setting the loan rate at 75 percent of a three-year moving average provides consistency among commodities. More importantly, it provides consistency with the determination of the levels for target prices, which are also based on a three-year moving average of U.S. market prices.

3. Q. Why is a separate loan rate and target price established for extra-long staple (ELS) cotton?

   A. While ELS cotton represents a small amount of total U.S. cotton production (less than 2 percent) it is grown only in certain areas of the country where it is well adapted to hot dry weather conditions. In addition, its markets are chiefly high-value products as opposed to the apparel, household and industrial products made from upland cotton.

4. Q. Why are separate loan rates being established for different types of rice?

   A. There are currently three major types of rice produced in the United States. There is relatively little substitution among these types for most users of rice. Supply-demand imbalances that appear in the aggregate may not indicate the market situation for a single class of rice.

   Moreover, planting of new, high-yielding rice varieties is increasing, which could aggravate imbalances in the market for one rice type compared to another. Separate loan rates which accurately reflect supply-demand conditions and end uses will address the excess supply problems that arise when establishing loan rates for just one type of rice.

5. Q. What cropland acreage base will be used under the acreage reduction program to determine the amount of acres permitted to be planted to the crop on each farm?

A. The acreage base for a farm for any crop will be the average of the crop planted for harvest on the farm for the three crop years immediately preceding the year for which the determination is made.

Title VI: Soybeans

1. Q. What are the major provisions of the soybeans title?

   A. The major provisions include:

   - All producers eligible for nine-month loans.

   - Loan rates are based on 75 percent of the three-year moving average of U.S. market prices.

   - Nonrecourse loans are limited to $200,000 to any producer for all commodities on all farms in which the producer has an interest. Loans in excess of $200,000 are recourse loans.

   - Authorities under permanent legislation as they affect soybeans will be repealed.

2. Q. How does this legislation differ from current legislation regarding soybeans?

   A. Under current legislation, the loan level is established at 75 percent of a five-year moving average of the season average price received by farmers, excluding the high and low years. In addition, a minimum loan rate of $5.02 per bushel is required. Under this legislation, the loan rate is also established at 75 percent, but is based on national average prices received by producers for soybeans during the three immediately preceding years. There is no specified minimum.

3. Q. Will acreage reduction programs be required as a condition of eligibility for price support?

   A. No. There would be no authority for acreage reduction or other supply control programs for soybeans.

Title VII: Dairy

1. Q. What are the major provisions of the dairy title?

   A. The major provisions include:

   - For marketing years 1985/86 and 1986/87, the support price for manufacturing grade milk will be established as follows:

     1) On October 1, 1985, the support price will be $11.60/cwt., except that on April 1, 1986, if the Secretary of Agriculture estimates that CCC purchases of dairy products for the following 12 months are projected to exceed 5 billion pounds milk equivalent, the Secretary shall reduce the support price by 50 cents/cwt.

     2) On January 1, 1987, if the Secretary estimates that CCC purchases of dairy products for the following 9 months are projected to exceed an annual rate of 5 billion pounds milk equivalent, the Secretary shall reduce the support price by 50 cents/cwt.

   - For marketing year 1987/88 and thereafter, a direct payment program will be established. Target prices will be calculated on an annual declining percentage of the three-year moving average of U.S. milk prices at the following levels:

Marketing Year	Target Price 1/
	As percentage of 3-year moving average U.S. market prices
1987/88	2/
1988/89	85%
1989/90	80%
1990/91	75%
Thereafter	75%

1/ Payment rate based on national average market price received by farmers for all milk.

2/ The lesser of a) the all-milk price received by producers in fiscal year 1987 or b) 90 percent of the average prices received by producers for all milk in the preceding three years.

   - The Secretary of Agriculture is required to appoint a task force to review the Federal Milk Marketing Order Program. The task force shall consist of three producers, three processors (two from cooperatives and one independent processor), two agricultural economists from the Land Grant universities, and two representatives from consumer organizations.

The task force shall:

1) Study the need for Federal milk marketing orders and clarify their purpose;

2) Assess the impacts of the existing Federal Milk Marketing Order Program on milk producers, processors, distributors and consumers;

3) Identify, describe and evaluate feasible alternatives to the existing program, including analyzing the costs and benefits from commercial reconstitution of milk for fluid use;

4) Recommend regulatory and legislative changes as deemed appropriate and implement by no later than September 30, 1990.

o Authorities under permanent legislation as they affect dairy will be repealed.

2. Q. Why is the support price initially established at $11.60/cwt. for the 1985/86 marketing year, particularly when it is uncertain whether the authority will be exercised under the Dairy and Tobacco Adjustment Act of 1983 allowing the Secretary to adjust the support price based on projections of CCC purchases?

A. In spite of the dairy diversion program created by the 1983 Act, there still appears to be an overcapacity of resources in the dairy sector as CCC purchases still remain well above historical levels and are projected to continue to cost taxpayers nearly $1.5 billion in FY 1985. The dairy price support program must have flexibility and allow the price support level to adjust to changing economic conditions. The $11.60/cwt. level provides a logical and reasonable starting point to achieve a market-oriented dairy policy.

3. Q. For marketing years 1985/86 and 1986/87, the authority for making support price adjustments is scheduled for April 1, 1986, and January 1, 1987. What is the reasoning for the timing of these adjustments?

A. At the beginning of the 1985/86 marketing year, the support price will be established at $11.60/cwt. That support price will be lowered 50 cents/cwt. at each decision point if surpluses persist. Thus, it provides timely intervals for phasing the support price towards market orientation.

4. Q. Beginning with marketing year 1987/88, the current purchase program will be converted to a direct payment program. Why is the method of price support changed after two years?

A. Once the support price becomes more market-oriented, it would remain below the market price, except possibly during flush production periods or extreme supply/demand conditions. At that point, little or no dairy products would be sold to the government, no longer necessitating the need for a purchase program. If the market price for

milk falls below the target price level, farmers will receive a deficiency payment based on the difference between the market price and the target price, thus offering them income protection.

5. Q. How will the transition be made from a purchase program to a direct payment program?

   A. The concept of moving the support price towards market orientation will be phased in under the current purchase program as price supports will gradually be reduced. In 1987/88, the direct payment program will operate with a target price initially set at the lower of 90 percent of a three-year moving average of U.S. market prices for all milk or the price received by producers for all milk in 1986/87. If the average market price is less than the target price, all dairy farmers would be eligible for a payment based on the difference between the market and target price, subject to an overall $10,000 payment limitation.

6. Q. Is there a provision for advanced deficiency payments to dairy farmers?

   A. Yes, the legislation provides the Secretary flexibility to make periodic payments to milk producers including the ability to provide advance deficiency pyaments.

7. Q. Once the direct payment program begins, how will CCC dispose of the existing government stocks of dairy products?

   A. CCC will continue to meet existing program requirements for both domestic and foreign donations so long as stocks exist. They would be disposed of in a manner which would minimize interference with the marketplace.

8. Q. The legislation requires that a task force be appointed by the Secretary of Agriculture and review the Federal Milk Marketing Order Program. Why are milk marketing orders undergoing such a thorough review?

   A. Federal milk marketing orders set minimum prices which must be paid by processors to dairy farmers or their cooperatives for grade A (fluid grade) milk in markets where producers have elected to come under Federal orders. Higher minimum prices are established for milk for fluid use than for regulated Grade A milk used in manufactured products. The proceeds from milk sales in each market are pooled and farmers receive a blend or average price.

   Milk used for fluid use and dairy products are designated by classes. Minimum class prices are established on the basis of specified relationships to the market price of manufacturing grade milk, so they automatically reflect changes in support prices. As such, Federal milk marketing orders have lent regularity and a degree of price certainty to fluid milk markets.

However, there is growing concern that milk marketing orders may be contributing to inefficiencies in resource use, including excess production in some areas. There is also some concern that milk marketing orders make fluid milk more expensive to some consumers or incomes less to some producers than they need to be. And, as the price support program is adjusted to bring milk production more in line with use, pressures for changing the marketing order program will mount. Thus, it would behoove all concerned with the future of the dairy industry to assess the impact of the existing marketing order program and make recommendations that may improve their purpose.

Title VIII: Peanuts

1. Q. What are the major provisions of the peanuts title?

   A. The major provisions include:

   - The 1985 crop farm poundage quota of 1.1 million tons will be retained through 1990 for direct payments to ease the transition to a market oriented program.

   - Loans
     All producers are eligible for nonrecourse loans, limited to $200,000 to any producer for all commodities on all farms in which the producer has an interest. Loans in excess of $200,000 are recourse. The period is up to nine months. The loan rate is the lower of $250 per ton or 75 percent of immediately preceding three-year U.S. market average price.

   - Direct Payments
     Direct payments will be made to producers with payment (1985 poundage) quotas. The payment rate is the difference between the established price and the national season average price. Established price is set as follows:

Crop Year	Established Price
	-- Dollars per ton --
1986	$550
	As percentage of 3-year moving average U.S. market prices
1987	95%
1988	90%
1989	85%
1990	80%
Thereafter	75%

   - In crop year 1991 and thereafter, the loan rate and the established (target) price are at the same level, providing all producers similar loan and target price benefits.

   - Permanent transfers of payment quota are authorized only (1) on death of owner, (2) as a gift, or (3) to a family member.

   - Temporary transfers are allowed if both owner and operator agree to such transfers.

   - Authorities under permanent legislation as they affect peanuts will be repealed.

2. Q. Why is the nonrecourse loan rate for peanuts established at the lower of 75 percent of a three-year moving average of U.S. market prices or $250 per ton?

   A. Under this legislation, the present two-tier price system is no longer in effect, eliminating the necessity for a quota and nonquota loan. Basing the loan rate on the lower of $250 per ton (which approximates average U.S. variable costs of production for peanuts) or 75 percent of the three-year moving average of U.S. market prices provides all producers the availability of harvest time credit.

3. Q. Why are producers who presently hold poundage quotas allowed to receive a direct payment?

   A. In order to move to a more market-oriented peanut program, it is necessary to phase out the existing poundage quotas. The value of peanut allotments was capitalized into the price of the land originally assigned the historical allotment. While allotments were discontinued under the 1981 Farm Act, the poundage quotas that were assigned to allotment holders under 1977 Farm Act were continued. As a result, the value of the original allotments are now reflected in the poundage quotas. An estimate for 1981-83 puts this value for an owner-user at $140 per ton. By immediately eliminating the quotas, their value would be zero, causing an immediate drop in land values and severe economic dislocation to quota holders. Thus, a declining direct payment will allow quota holders an orderly transition period to shift resources to competing uses. Beginning in 1991, direct payments would be made to all producers if season average prices fell below 75 percent of a three-year moving average of U.S. market prices or $250/ton, whichever is lower.

4. Q. Under the 1981 Farm Act, the poundage quotas were reduced each year to a level of 1.1 million tons for 1985. At what level or levels will the direct payments be made to quota holders?

   A. The direct payments will be based on the 1985 quota level of 1.1 million tons throughout the transition period, with the payment level declining each year until it equals the loan rate in the 1991 crop year.

5. Q. Why is the initial direct payment level established at $550 per ton as opposed to 100 percent of the three-year moving averaging of U.S. market prices?

   A. 1984-crop quota peanuts were supported at $550 per ton. In an effort to provide an orderly transition from the use of poundage quotas, the payment rate is initially established at the level supported under current law. For each succeeding crop year through 1990, the payment rate is based on a declining percentage of the three-year moving average of U.S. market prices.

6. Q. Won't allowing anyone to produce peanuts result in a surplus and depress prices?

   A. Since acreage allotments were removed under the 1981 Farm Act, anyone is allowed to produce peanuts. However, any peanuts produced in excess of poundage quotas ("additional" peanuts) are restricted to the export or crushing market or the lower of the two-tier price system. The establishment of a market-oriented loan rate will allow producers to receive a price from the marketplace based on the allocation of end uses for peanuts free of any marketing controls or encumbrances.

7. Q. What will happen regarding the marketing restrictions on quota and additional peanuts?

   A. All marketing restrictions relating to specific end uses of both quota and additional peanuts are eliminated, allowing peanuts to flow freely to either domestic or export end uses.

6. [illegible] acreage [illegible] [illegible] [illegible] [illegible] 1961 [illegible]
and is allotted [illegible] [illegible] [illegible] any planted acreage
in excess of [illegible] acreage quota [illegible] penalties, are [illegible]
to the export or [illegible] market, or the lower of the [illegible]
[illegible]. The [illegible] market [illegible] the
producers to receive a [illegible] the penalties based on
allocation of and uses for peanuts [illegible] any [illegible]
grievances.

7. Q. [illegible] regarding the marketing [illegible]
[illegible] peanuts.

[illegible] marketing regulations [illegible]
[illegible]
[illegible]

Title IX: Sugar

1. Q. What are the major provisions of the sugar title?

   A. The major provisions include:

   - Beginning with crop year 1986, commodity loans are available at the rate of 12 cents per pound, or 75 percent of the 3-year moving average of U.S. market prices, whichever is lower.

   - Loans must be repaid in the same fiscal year they are made to processors.

   - Nonrecourse loans are available to any processor at a level to reflect not more than $200,000 per producer. Loans in excess of $200,000 per producer are recourse.

   - The Secretary shall establish separate loan and target price rates for beet and cane sugar.

   - For crop year 1986 and thereafter, establish a direct payment program to growers will be established. The payment rate will be the difference between the national season average price and the established price. The established price will be set at the following levels:

Crop year	Established Price*
	--Cents per lb.**--
1986	18¢
1987	16¢
1988	14¢
1989	12¢
1990	12¢
	As percentage of 3-year moving average U.S. market prices
1991	75%
Thereafter	75%

* Due to the low world market price for sugar in recent years, the payment rate is phased down in 2-cent increments in order to provide an effective transition to a 3-year moving average of U.S. market prices.

** Or 75% of three-year moving average, whichever is higher.

   - Authorities under permanent legislation that affect sugar are repealed.

2. Q. Beginning with crop year 1986, sugar will be supported through loans to processors. How will this differ from the current program?

   A. Under the current program processors are eligible to receive a nonrecourse loan. To be eligible for the loan program, a processor

must agree to pay at least the minimum specified support price to any grower who delivers sugarbeets or sugarcane to the processor. In 1981, the Congress strongly urged the President to use all legislative authorities available to avoid adverse budgetary outlays under the sugar program. Thus, in administering the domestic sugar program, USDA has tried to avoid forfeitures of sugar to CCC. This is largely accomplished by establishing a market stabilization price (MSP) for raw cane sugar above the purchase or loan rate.

Under this legislation, nonrecourse loans would be made available to processors at a level to reflect up to $200,000 per producer. However, the loans would have to be repaid in the same marketing (fiscal) year that they were made to processors.

3. Q. Why must nonrecourse loans be repaid in the same marketing (fiscal) year they are made?

   A. Under current law, loans must be made and must mature in a single fiscal year. For example, under the 1984 sugar progam, beginning October 1, 1984, loans can be made for six months, but all loans must mature by the end of the fiscal year--September 30, 1985. Under this legislation, the eligibility requirements and length of maturity for nonrecourse loans will be the same as in the recent past.

4. Q. How will the Secretary ensure that outlays under the sugar program will be minimized?

   A. The Secretary will take all steps available to him that are practicable and reasonable to avoid the acquisition of stocks of sugar by the Commodity Credit Corporation.

Title X: Wool and Mohair

1. Q. What are the major provisions of the wool and mohair title?

   A. The major provisions include:

   - Establish a direct payment program whereby the payment rate for wool and mohair will be the difference between the national season average price and the established price. The established price will be set at the following levels:

Crop Year	Established Price: Wool	Established Price: Mohair
	As percentage of 3-year moving average U.S. market prices*	
1986	100%	100%
1987	95%	95%
1988	90%	90%
1989	85%	85%
1990	80%	80%
Thereafter	75%	75%

* Or $1.65 per pound for wool, and $5.17 per pound for mohair, whichever is lower.

2. Q. How does the direct payment program under this legislation differ from the current incentive payment program?

   A. Under the current program, wool and mohair producers receive an incentive payment which is supposed to encourage the production of higher quality wool and improve wool marketing. The payment rate is based on the percentage needed to bring the national average market price received by producers up to the support price. However, the gap between the rising incentive price and the lower market price has resulted in rising program costs.

   Under this proposal, wool and mohair producers will receive a direct payment based on the difference between the season average price and an established price which is the 1984 support level or a declining percentage of a three-year moving average of U.S. market prices, whichever is lower.

3. Q. Will payments be continued for unshorn lambs?

   A. Yes. The payment rate for pulled wool will continue to be established at such level in relationship to the support price for shorn wool as the Secretary determines will maintain normal marketing practices for pulled wool.

4. Q. Presently, wool program payments are not subject to a payment limit. Are they under this legislation?

   A. Yes. Since producers will receive direct payments in the form of deficiency payments, they will be subject to the payment limitation.

5. Q. There are some who contend that the revenue raised from tariffs charged on imported raw wool and wool textiles more than offsets wool program expenditures and that the current program does not cost taxpayers anything and provides benefits to consumers. If so, why is the current program being changed and made subject to a payment limitation?

   A. Commodity Credit Corporation (CCC) funds are used to operate the wool incentive and mohair support program. Since CCC is reimbursed through annual appropriations from Congress, the payments to wool and mohair producers represent a direct outlay that is paid by U.S. taxpayers.

   Under the Tariff Act of 1930, duties are collected on imported raw wool and wool manufactures. Those duties are deposited into the Federal Treasury. They are not used to specifically offset the costs of the wool and mohair program. Provisions were included in the National Wool Act of 1954 which would limit, both on a fiscal and cumulative basis, the amount of payments to wool and mohair producers to 70 percent of all duties collected on wool and wool manufactures. With the exception of one year, the limit has never been reached. On a cumulative basis, duties have continued to exceed costs of the wool and mohair program.

   Irrespective of these limitations, the revenues collected from duties on wool and wool manufactures are not used to offset costs of the wool and mohair program. That is consistent for other major commodities in which outlays incurred from government programs are not offset by any existing duties or tariffs of like commodities imported in the United States.

   More importantly, the primary function of the incentive program--to encourage the production of higher quality wool and improve wool marketing--has not proved effective. U.S. wool production and average fleece weight has declined steadily since at least 1970. At the same time, total raw wool and wool imports have been highly variable over the same time period, although they have steadily increased since 1979.

   The effect of the wool program on consumers is likely negligible. The small size of the U.S. wool market in relation to the world market and the substantial volume of U.S. wool imports suggest that U.S. wool prices are more related to world wool prices than to incentive payments.

Honey Price Support Program

1. Q. What are the major provisions of the honey program?

   A. None. The authorities under permanent law for the honey price support program are repealed and no program is provided for under this legislation.

2. Q. What is the reasoning for eliminating the honey price support program?

   A. There were several reasons for this decision. First, the program benefits very few beekeepers. An estimated 90-95 percent of the 211,600 beekeepers in the United States are hobbyists who own less than 25 colonies of honey bees. Most honey produced by hobbyists is consumed at home, given to friends and relatives, or distributed through local outlets. Another 10,000 own from 25 to 299 colonies, and together with hobbyists account for about one-half of the total colonies and 40 percent of honey production. For this second group, honey generally does not serve as the principal source of income. Commercial beekeepers number about 1,600, or less than 1 percent of the total beekeeping population. Yet, this group accounted for almost 60 percent of honey production.

   Second, the honey price support program violates almost all free market principles by allowing the level of price support to be established above the market price. This has been the situation since 1980, when honey was acquired by the CCC for the first time since 1969. These forfeitures have occurred simply because the support price is significantly above the average market price. As a result, too much honey is being produced to allow the market to clear at prices at or above the support rate. This results in a grossly inefficient use of resources that benefits relatively few (primarily 1,600 commercial beekeepers--less than 1 percent of all beekeepers) at a significant cost to taxpayers ($90 million alone in FY 1984).

3. Q. Won't the termination of the honey price support program result in a substantial decline in the number of honeybee colonies and jeopardize the pollination of our fruit, vegetable, nut and seed crops?

   A. It is important to note that the bulk of the pollination of plants in the United States is provided either by wild bees or colonies managed by beekeepers who are engaged only in honey production and receive no pollination fee. Most of the pollination service that is for rent to growers in the United States is provided by the large commercial beekeepers. Hobbyists and part-time beekeepers are generally not engaged in providing pollination services for rent because they cannot economically justify investment in equipment to transport honeybees from one pollination site to another.

Research by USDA has revealed that pollination costs are a very small part of the total cost of producing crops requiring pollination services and could be increased to compensate those beekeepers who provide pollination services for rent. Likewise, increased pollination fees could also offset or reduce the economic effect of lower domestic honey prices for those beekeepers actively engaged in providing pollination services for a fee.

4. Q. What if commerical beekeepers were not able to increase pollination fees sufficently to offset or reduce lower domestic honey prices?

   A. If it is determined that pollination services are in need of a subsidy, it would be more efficient to directly support those activities rather than do so indirectly through a costly and inefficient honey price support program.

5. Q. U.S. honey stocks totaled over 165 million pounds in 1983, or one-half of the world stocks of honey. An estimated three-fourths of the stocks are being held by the government. With the termination of the honey price support program, how would CCC dispose of those stocks?

   A. Currently, CCC disposes of the majority of its honey stocks through food assistance prorams operated by the Food and Nutrition Service in USDA. Only a small amount of honey is sold on the open market since, except for certain circumstances, the CCC is precluded from selling its honey at less than 105 percent of the acquisition cost. Thus, CCC would continue to provide donations of honey to nonprofit, emergency and domestic relief organizations. In addition, any disposal in the open market would continue to be orderly and operate under the present rules and regulations.

Title XI: Food Assistance Reserve

1. Q. What are the major provisions of the Food Assistance Reserve title?

   A. The major provisions include:

   - The Secretary has the discretionary authority to designate up to 500 million bushels of wheat and feed grains in a reserve for humanitarian purposes.

   - The stocks necessary to establish this reserve may come from existing CCC inventories or purchases.

   - The Secretary has authority to replenish the reserve when the level for either wheat or feedgrains falls below 500 million bushels.

   - The Secretary will have the authority to establish rules and regulations regarding:

     1. Purchase of wheat and feedgrains for the reserve;

     2. Rotation of reserve grain;

     3. Use of reserves to meet emergency famine relief.

2. Q. What is the rationale for establishing a single reserve?

   A. The rationale behind the Food Assistance Reserve is to provide a separate reserve that can be drawn from on short notice in order to meet domestic and international humanitarion needs, particularly in areas which need emergency famine relief.

3. Q. Under this legislation the Secretary may replenish the reserve whenever the level for either wheat or feedgrains falls below 500 million bushels. Can he acquire grain above the 500 million bushel level?

   A. No. The Secretary cannot purchase stocks in excess of 500 million bushels for the Food Assistance Reserve.

Title XII: General Provisions

- Payment Limitation

  Establish a payment limitation per person, where applicable, for wheat, feed grains, cotton, rice, dairy, peanuts, tobacco, sugar and wool and mohair at the following levels: 1986 crop year-$20,000; 1987 crop year-$15,000; 1988 crop year-$10,000; and for the 1989 crop year and thereafter-$10,000.

- Loan Limitation

  Establish a $200,000 limitation on the amount of outstanding nonrecourse loans where applicable, that can be made to each producer during each crop year. The $200,000 limitation also applies to sugar processors.

- Corn Marketing Year

  Change current marketing year for corn from October 1 through September 30, to September 1 through August 31.

Title XIV: Agricultural Research, Extension and Teaching

1. Q. What are the major provisions of the Agricultural Research Title?

   A. The major provision include:

   - Establish USDA as the lead agency in the Federal Government for the food and agricultural sciences, and to emphasize that agricultural research, extension and teaching are the distinct missions of USDA.

   - Identify needs and establish priorities for research, extension and teaching programs and to assure that results of research are effectively communicated and demonstrated to farmers, processors, handlers and consumers.

   - Increase cooperation and coordination in the performance of agricultural research by Federal departments and agencies, the States, State Agricultural Experiment Stations, colleges and universities, and user groups.

   - Award competitive grants for high-priority agricultural research among research workers and all colleges and universities and provide grants for the improvement of agricultural research facilities and equipment.

   - Administer a program of competitive education grants and fellowships to strengthen research, extension, and teaching programs in the food and agricultural sciences.

   Title 14 contains several specific directives. The major directives are:

   - USDA is designated as the lead agency for human nutrition research (except with respect to the biomedical aspects); the Secretary is directed to coordinate nutrition research activities with the Department of Health and Human Services.

   - The Secretary is directed to consult with the Joint Council on Food and Agricultural Sciences, the Users Advisory Board, and other advisory groups in the formulation of basic policies, goals, strategies, and priorities for programs of agricultural research, extension, and teaching.

   - The Secretary is directed to promote and develop higher education programs in the food and agricultural sciences by formulating and administering higher education programs.

   - The Secretary is directed to regularly conduct program evaluation to meet the purposes of this title. An appropriation of $1 million annually has been provided for this purpose.

2. Q. What is the major change proposed in the Agricultural Research Title?

   A. Four years ago there was great concern as to whether we would be able to grow enough food and fiber to meet domestic needs and international markets. Therefore the 1981 Farm Act heavily emphasized the need to improve production. American farmers have proven their ability to meet production needs, to the extent that supply exceeds market-clearing prices for many commodities. In Title 14 of the new farm bill, we are placing greater emphasis on the role of research and extension in strengthening the efficiency and use of production resources and profitability of the farm enterprise.

3. Q. Are you proposing any major changes in USDA research programs?

   A. We are not proposing any major changes in these programs as the research system is efficient and flexible to meet anticipated needs. We will continue to develop the emerging use of biotechnology in our research programs. We are also continuing the competitive research grants program to focus on high-priority needs and help strengthen the quality of agricultural research.

4. Q. Are you proposing to eliminate any provisions of the existing Title 14?

   A. We are deleting some provisions of the 1981 Farm Act which mandated certain reports or actions in a specified time period. We have completed all such reports and actions and the legislation is no longer applicable. We are also proposing to eliminate the advisory boards for aquaculture and rangeland management as these interests are represented on other advisory boards.

5. Q. There has been concern expressed over the construction of facilities by the Agricultural Research Service which the Congress has mandated. Has this issue been addressed?

   A. Yes. Improvements in facilities and equipment at our universities are needed to assure their capacity to meet current and future development opportunities in agricultural science and education. We are also concerned that building facilities at universities using ARS funding authorizations has raised problems for both the Federal and State partners. However, this has been the only option available to both the legislative and excecutive branches. We are proposing to rewrite the Research Facilities Act which would allow USDA to assist the colleges on a matching basis for the construction of non-USDA-owned agricultural or related program facilities.

Title XV: Resource Conservation

1. Q. What are the major provisions of the Resource Conservation title?

   A. The major provisions include:

   o "Sodbuster" Prohibitions

   Any operator of Class IVe, VIe, VII, or VIII land which had not been in crop production for the preceding 10 years and who tills it without having a conservation plan approved by the local conservation district, will thereafter be ineligible for all Federal farm program benefits for all of the commodity grown on such land and for the same commodity grown on any other land by the same operator.

2. Q. The sodbuster provisions call for strict penalties for any producer who brings land designated as highly erosive into crop production. How serious is this problem?

   A. The amount of erosion-prone land being utilized for row crops and cultivated uses has increased sharply in recent years. In 1982, 43.6 million acres of land class IVe, VIe, VIIe soils were utilized as cultivated cropland in the United States. The comparable acreage was 32.5 million in 1977, an 11-million acre increase. It has been estimated that soil movement on over 22 million of these acres is quite severe, while the remaining half have soil erosion problems that can be handled in many instances with good soil management practices. In order to ensure that more erosion-prone land is not brought into crop production, it is essential that strict provisions are in place to deter it.

3. Q. The sodbuster provisions state that any operator of highly erodible land which had not been in production for the preceding 10 years and who tills it without following an approved conservation system will be ineligible for Federal farm program benefits. Will the producer be required to adhere to the conservation system?

   A. Yes.

4. Q. Is the ineligibility for farm program benefits limited to commodity program benefits or all Federal farm program benefits?

   A. If an operator brings erosion-prone land into production and violates other existing conditions, he will be ineligible not only for commodity program benefits, but all Federal farm program benefits.

Title XVI: Agricultural Credit

1. Q. What are the major provisions of the Agricultural Credit title?

   A. The major provisions include:

   - Effective in crop year 1986, the Farmers Home Administration emergency (EM) program will not be made available to producers in those counties in which crop insurance is available on the individual commodity that is affected by occurrences of natural disasters.

     To encourage the expansion of crop insurance and provide for more competitive pricing for producers, the Federal Crop Insurance Corporation (FCIC) is authorized to permit commercial insurance companies to establish their own premium rate structures for approved multi-peril or limited risk crop insurance policies. FCIC will determine, based on its own actuarial evaluation, the maximum subsidy rate to be applied to any multi-peril or limited risk crop insurance policy. The Corporation shall set the maximum rate payable to any commercial offering regardless of the pricing structure established independently by the commercial insurance firm.

   - Beginning with FY 1986, all farm loans authorized under FmHA programs will be offered to borrowers on a guaranteed basis not to exceed 75 percent of the loan amount through commercial or Farm Credit System lenders. However, borrowers facing financial hardship are eligible for guarantees of up to 90 percent of the loan amount. Guarantees to established operators will not exceed 75 percent.

   - Beginning with FY 1986, FmHA, in cooperation with commercial lenders, will take steps to phase out existing direct operating (OL) loans. This phase-out is to be concluded at the end of five years. To accomplish this transition, the Secretary is authorized to take the following courses of action: Existing FO and OL loans may be subject to sale or transfer to a commercial or Farm Credit System lender on such terms as may be determined by the Secretary on a nonrecourse basis.

2. Q. What impact will be felt if the FmHA Emergency Loan Program is eliminated?

   A. The crop insurance program, administered by FCIC and delivered through private insurance companies and agents, provides the best government-sponsored alternative to traditional government disaster programs.

   Crop insurance is now available on 35 crops in virtually every crop-producing area in the country, including those formerly covered by the low yield disaster payments program administered by ASCS. Recent changes in the program, such as basing guarantees on a producer's actual production experience, have made the program a truly viable risk management program that should be considered in an overall risk management strategy.

   With the elimination of traditional government disaster programs, the crop insurance program emerges as the logical private sector answer to these programs. With continued improvement of the product and expansion of crop insurance availability of major commercial agricultural products, the elimination of the FmHA emergency loan program should have little impact on a prudent farmer's ability to maintain financial stability.

3. Q. Do you expect more farmers to participate in the federally sponsored all-risk crop insruance program?

   A. We have every reason to expect crop insurance participation to increase among the Nation's agricultural producers.

   Recent changes in the program, including provisions that make the program more attractive to higher yielding farmers, address major complaints about the program in the past that have led, at least partially, to the low participation rates. Adverse selection--the condition inherent in the old crop insurance program that drove coverages down and prices up--will be reversed under the new program, making it possible to offer generally higher coverages at reduced overall rates.

   The actual production history program, first introduced in 1983 on cotton and rice crop insurance policies, produced sharply higher rates of participation on those two crops. It is expected that the introduction of APH in other crop areas will similarly produce the same result.

4. Q. How do you plan for crop insurance to make up the difference in farmers needs if FmHA disaster loans were terminated starting next year?

   A. FCIC and USDA management personnel have made a major effort to increase the awareness about the new crop insurance program among farmers, professional farm managers, and agricultural lenders.

The new program has been greeted enthusiastically, and many of the complaints voiced in the past have been mitigated by recent program changes. FCIC expects to continue this public awareness program in conjunction with ASCS and the Cooperative Extension Service, which have offices and personnel in every agricultural county. Every commercial grower in the country should have readily available current information on the new crop insurance program and how it can be tailored to meet individual needs.

5. Q. How can the government encourage farmers to use federally sponsored crop insurance to protect themselves against the risk of loss from natural disaster?

A. Government-sponsored public awareness programs, such as those administered through the Cooperative Extension Service and ASCS, can do much to increase the awareness of crop insurance and the changes in the program among agricultural producers.

Numerous risk management tools are available to farmers, including forward contracting, hedging, the options markets, and soil management. Crop insurance may not be the most appropriate risk management device for every farmer; or crop insurance may be most appropriately used in combination with other devices.

It is the intention of FCIC to make every farmer aware of the FCIC crop insurance program and the changes in the program that make it a high value option that should be considered in every farmer's risk management strategy.

Through the use of such programs, we expect prudent farmers to select risk management alternatives to the traditional and costly Government sponsored disaster programs of the past.

6. Q. The insured programs are highly subsidized loan programs costly to the taxpayer. Do guaranteed loans cost significantly less than insured loans?

A. We believe that guaranteed loans cost the government substantially less than insured loans. While we do not have readily available comparative cost figures, a number of factors are involved. Guaranteed loans are made without interest subsidy. The borrower pays the lender rate to the lender. The lender makes and services the loans, with minimal input from FmHA, thus substantially reducing government personnel costs. Due to the limited FmHA input in guaranteed loan-making and servicing, less personnel would be required to handle comparative caseloads.

7. Q. FmHA has been criticized for the time required to process farm loan applications. Would this be improved in a guaranteed program?

A. Yes. The local lenders are in a position to adjust quickly to workload demands and are highly conscious of the obligation to promptly serve their clientele. They have, or can obtain and train, a

highly qualified staff to process and service loans. The farmer receiving a guaranteed loan is dealing with a local lender, a part of the community.

8. Q. Would funds be available locally for a substantially increased guaranteed loan level?

   A. Banks and other lenders have funds for lending. Any hesitation for lending to farmers is substantially removed through the government guarantee. A streamlined FmHA guaranteed program can be highly successful. Local farmers are dealing with local lenders they know, using depositor funds for loans.

9. Q. Some banks, at least smaller ones, have rather limited lending levels and limited funds. How does this affect guaranteed lending?

   A. We understand that only the unguaranteed portion of a loan counts against a bank's limit. In addition, banks may sell the guaranteed portion of the loan to a secondary lender, thus replenishing the banks' funds.

10. Q. Is it profitable for a bank or other lender to participate in an FmHA guaranteed program?

   A. Yes. The farmer pays the lender the going rate of interest. The guarantees reduce most of the risk. Banks may sell the guaranteed paper on the secondary market and they can collect servicing fees. Losses to the lender should be minimal. Overall, there is profit for the lender.

Title XVIII: Effective Date

- The effective date of this legislation is October 1, 1985, or enactment. Authority under this legislation will expire September 30, 2000.

Title-by-Title Cost Estimate
AAA of 1985

		FY 87	FY 88	FY 89	FY 90	FY 91	FY 87-91
TITLE I:	Agricultural Trade and Export Expansion	3.1	3.1	3.0	3.0	3.0	15.2
TITLE II:	Wheat	1.8	1.2	0.6	0.6	0.6	4.8
TITLE III:	Feedgrains	1.0	1.5	0.6	0.6	0.5	4.2
TITLE IV:	Cotton	0.2	a/	a/	-0.1	a/	0.1
TITLE V:	Rice	0.3	0.2	0.1	0.1	0.1	0.8
TITLE VI:	Soybeans	0.2	a/	0	0	0	0.2
TITLE VII:	Dairy	1.2	1.5	0	0	0	2.7
TITLE VIII:	Peanuts	a/	a/	0	0	0	a/
TITLE IX:	Sugar	0	0	0	0	0	0
TITLE X:	Wool and Mohair	0.1	0	0	0	0	0.1
TITLE XI:	Food Assistance Reserve	b/	b/	b/	b/	b/	b/
TITLE XIV:	Agricultural Research c/	1.8	1.9	2.0	2.0	2.0	9.7
	TOTAL	9-14	7-11	6-8	5-7	5-7	30-45

a/ Less than ± $100 million.
b/ Outlays included in estimates for commodity titles.
c/ Funding levels authorized through FY 89.

ISSUE PAPERS

- LONG-TERM AGRICULTURAL POLICY
- MARKET-ORIENTED PRICE AND INCOME SUPPORTS
- ACREAGE REDUCTION PROGRAMS
- FOREIGN RESPONSE TO CHANGES IN U.S. AGRICULTURAL POLICY
- THE DAIRY PURCHASE PROGRAM AND A DIRECT PAYMENT PROGRAM
- MARKET ACCESS AND EXPORT EXPANSION POLICIES
- DEFICIENCY PAYMENTS BASED ON SEASON AVERAGE PRICES
- PAYMENT LIMITATION

Long-Term Agricultural Policy

Agriculture, by its very nature, is subject to inherent volatility and uncertainty. Many of the factors that significantly affect agriculture, such as weather, are out of anyone's control and beyond the reach of farm policy. As a result, the Government has a responsibility to support some reasonable level of income and price protection for the farm sector in order to insure a continuous, adequate, and wholesome supply of food and fiber. In carrying out this responsibility, the Government should provide an environment in which market forces can signal desirable resource adjustments to farmers.

Today's agriculture is increasingly specialized and requires long-term capital commitments and management decisions that cannot realistically be made in the absence of a relatively stable and certain farm policy environment. The basic volatility in agricultural production should not be augmented by persistent short-term policy shifts.

The 1985 Farm Bill should contain a vision of the potential of agriculture in the future. The legislation must recognize the realities of today's agriculture and must provide an opportunity for agriculture to expand its position in the U.S. and world economy.

It has become increasingly clear that present farm policy is not dealing effectively with desirable adjustments that will lead to potential expansion in U.S. agriculture. The rigid price supports of the 1981 Farm Bill, which were originally designed to provide only moderate income support, were set so high that they induced increased production both domestically and abroad. Pegging price supports above market-clearing levels led to record Government-held surpluses, caused very large budgetary expenditures, and reduced our ability to compete in world markets. The high support prices encouraged

production abroad at the same time that it was necessary to implement the largest acreage reduction program in the history of U.S. farm programs in order to reduce plantings.

The reason American agriculture found itself in this difficulty was that it was saddled with a farm policy based on outdated principles and designed to handle a short-run view of the world economy that never actually developed. It also lacked the flexibility to adapt to changing conditions. At the time the 1981 Farm Bill was formulated, a major concern was that world food needs would outpace production in the 1980's. Many also believed the United States was the only country that possessed the potential to expand food production enough to meet world needs. At the same time, there was great concern over inflation and rising production costs. Thus, the 1981 Farm Bill was developed in a climate of optimism for export growth and pessimism over controlling inflation rates that had escalated production costs. Land prices were escalating beyond levels that most farmers could pay for out of cash flow.

The problem was that the farm legislation adopted in 1981 was designed for an economic environment that never materialized. As U.S. and world agricultural output reached record levels in 1981 and 1982, the world entered a severe recession. Worldwide demand for agricultural products weakened and U.S. exports declined significantly. The sharp rise in Third World debt also hurt the ability of many of our customers to finance imports. Meanwhile, the value of the U.S. dollar steadily increased as foreign investors sought security and favorable rates of return in a U.S. economy that was taming inflation and setting the groundwork for an economic recovery. The increase in the value of the dollar, and the decline in the value of foreign currencies, meant that U.S. products became much more expensive in terms of the

domestic currencies of our foreign customers. To make matters worse, protectionist trade measures restricted U.S. access to foreign markets. Export subsidies by U.S. competitors further damaged U.S. agricultural exports.

The Agricultural Adjustment Act of 1985

These recent events demonstrate the unpredictability of the future and the critical need for agricultural policy to be capable of responding to both short- and long-range changes without having to resort to large-scale government intervention. Those events also highlighted the fact that many of agriculture's concerns are outside the immediate reach of farm policy due to the changing nature of the agricultural industry, the fluctuations in both domestic and global economic activity, and foreign and domestic economic policies. The 1985 Farm Bill should be formulated to foster an expanding U.S. agriculture in the coming decades.

Without a flexible long-term agricultural policy based on the needs of modern agriculture, we risk doing irreparable damage to our farm and agribusiness economies, and thus the overall economic standing of the United States. Agriculture is the largest and one of the most important and efficient American industries. It provides 22 percent of the Nation's jobs, 20 percent of its GNP, and supplies consumers both here and abroad with the highest quality and most reasonably priced food and fiber supply anywhere in the world. Agricultural exports and international food aid not only provide economic growth and trade and serve humanitarian needs, but they also help promote a safer world in which to live by the creation of mutual bonds of interest in the form of trade relations.

Farmers and other agri-businesses need to know what the role of government will be in U.S. agriculture in the years ahead. Long-term capital investments in farming, fertilizer and chemical production, farm machinery, and other related industries are necessary if U.S. agriculture is to maintain its competitive advantages in world markets. However, that investment will not be forthcoming if investors are not certain whether the total capacity of agriculture will be utilized, as in 1981, or if government programs will suddenly idle a large percentage of that capacity without warning, as it did in 1983 under the Payment-in-Kind program. We need a long-term farm policy that clearly defines and limits the role of government in agriculture. Only then can we be certain that agriculture will have a policy environment in which it can reach its potential.

Market-Oriented Price and Income Supports

Price Supports

The authority for commodity loan programs, known as price supports, comes from the Agricultural Adjustment Acts of 1933 and 1938. Since that time, they have been the major farm policy tool for providing short-term credit to producers during the marketing year and a price floor for the market. The use of loan programs has changed little since the origin of price supports even though the risks of using loan rates as an income enhancement tool were apparent by the mid-1950's. Support prices still serve, in varying degrees, as price floors, income support mechanisms, and marketing tools, depending on the commodity and the time period involved.

As a price floor, commodity loan rates have been used as a safety net to protect farmers from sharp drops in prices due to short-term weather or demand factors. It is argued that this helps to maintain the productive capacity of agriculture by providing some assurance that random and uncontrollable shocks to the market will be cushioned when market prices deviate substantially and temporarily below trend levels.

Also, it is argued that in years of short crops, stocks acquired under loan and purchase programs can be released as prices begin to rise, lessening the short-term impact on dairy, livestock, and poultry feeders while buffering the rise in food prices. This, in turn, benefits consumers by assuring adequate, wholesome food supplies at relatively stable prices.

While the use of price supports as a means to support market prices and incomes may have been partially legitimate in the past when agriculture was predominantly oriented to the domestic market, it does not appear to work in today's global market. When commodity loan rates are set above the price the market would otherwise dictate, the government becomes a substitute for the

marketplace. Excessive production, reduced markets and excessive stock accumulations are the results. When loan rates are set above variable costs, farmers are guaranteed a return. The reduction in risk is an incentive to expand production despite developments in the marketplace. Even in the face of declining prices and rising surpluses, large acreages remain and production increases. Farmers do respond to price signals--but in this case, the signals are coming from the loan rates. It is estimated that loan rates now cover average variable costs for over 98 percent of all corn and wheat production. It is safe to assume that if almost everyone's average variable costs are covered, then at least half of the production is guaranteed a return above variable costs.

Some also argue that this has encouraged further acreage expansion including more fragile land--land that can then be idled under acreage reduction programs with little effect on total output. For example, in 1982, we witnessed record wheat and corn production despite acreage reduction programs of 15 and 10 percent, respectively.

Moreover, the impacts are not confined to program crops. The higher loan rates on wheat are almost certainly the key incentive to expanded wheat and soybean double-cropping in the Southeast. With most of the variable costs of wheat assured through the market price floor established by the loan program, producers in the Southeast have tremendous incentives to plant wheat on acreage intended for soybeans later in the crop year. For example, double-cropped soybeans reached 11.5 million acres in 1982, compared with 3.2 million acres in 1978. The result is increased production of both commodities. And as new growth regulators, which can accelerate plant growth by as much as 10 days, are released, double-cropping soybeans could appear as far north as Kansas and northern Missouri. Since the economic feasibility will be influenced

by the degree of price protection provided to wheat, soybean producers in northern regions who cannot double-crop and grow only soybeans will be impacted by the wheat program. Some wheat producers, such as dryland wheat farmers, could also be impacted as others grow both more soybeans and wheat.

The dairy program is another example of high price supports leading to excess production. In the Food and Agriculture Act of 1977, the minimum support price for manufactured milk increased from 75 to 80 percent of parity. In addition, the 1977 Act required a semi-annual adjustment of the support price. As a result, prices received by farmers increased substantially: during fiscal year (FY) 1981 milk prices averaged over a third above the FY 1978 average. Consequently, dairy production increased continuously until the 1983/84 marketing year when a series of factors, including reductions in the support price and the dairy diversion program, led to a decrease in production. At the same time, CCC purchases of surplus production grew dramatically--from 1.1 billion pounds in FY 1979 to 16.6 billion pounds in FY 1983. Likewise, the cost of the dairy program rose from $234 million in FY 1978 to $2.5 billion in FY 1983.

This problem could be further aggravated by new production techniques. Recent tests at Cornell University reveal that injections of a growth hormone can increase milk production per cow by 15 to 40 percent without substantial change in feed ratios. Inflexible price supports cannot adjust to these realities. It is estimated that each 5-percent increase in milk production caused by the use of the growth hormone could result in more than $1 billion in additional CCC outlays.

Rice serves as a good example of excessive stock accumulation caused by price supports above market-clearing levels. Ending stocks of rice increased

from 16.5 million cwt. in 1980/81 to 71.5 million cwt. in 1982/83. The ratio of stocks to total use rose from 11 to 58 percent over that two-year period. About 40 percent of the 1982 rice crop and 43 percent of the 1983 crop was placed under CCC loan, compared with only 17 percent of the 1980 crop. In California, over 56 percent of the 1983 rice crop was placed under loan. Moreover, nearly two-thirds of the rice placed under loan in 1983 was forfeited to the CCC, including nearly all the California crop that had been placed under loan.

We have also witnessed similar situations for feed grains, wheat, cotton, dairy, and tobacco in recent years. For example, nearly one-fourth of the total 11 billion bushels of wheat and corn produced in 1982 were put under loan. Of the over 2-1/2 billion bushels put under loan, three-fourths were forfeited to CCC or entered the farmer-owned reserve. By the end of 1982, the ending stocks of wheat and corn equaled nearly 50 percent of annual use, compared with a 21-percent level at the end of 1980.

American farmers now depend upon foreign customers for marketing about 60 percent of their wheat production, 45 percent of their soybeans and rice, and over 50 percent of their cotton. The U.S. accounts for nearly half the world grain trade and three-fourths the soybean trade. When our loan levels exceed world prices, our competitiveness erodes.

Moreover, our competitors expand their production based on the price floor we create with our support levels. It seems apparent that competitors <u>do</u> react to our price floors, and it is reflected in their production decisions for certain major commodities. As an example, our major wheat competitors expanded their acreage by 8 percent from 1981 to 1983 under the shelter of our price umbrella, while we unilaterally reduced our acreage by nearly a fourth in an effort to enhance farm prices and reduce budget exposure.

Furthermore, the Canadians, who have steadily expanded their production, openly expressed their displeasure when we lowered the wheat loan rate for the 1984 crop. Other countries have expressed similar concerns.

Rice, cotton, and tobacco are other examples of commodities where our support levels are reducing our share of world markets. For instance, in the last three years the volume of U.S. rice exports has declined by a third while our major competitor, Thailand, has increased its exports by over a third. Currently, U.S. milled rice is about $150 to $175 per metric ton above the Thai price on the world market. Normally, U.S. rice commands only a $70 to $80 premium due to quality differences. This means that our rice loans are now about $2.00 per cwt. above the world market. Some suggest that it is not surprising that Thailand has now replaced us as the number one exporter of rice.

In addition, for both cotton and tobacco we have witnessed substantial growth in world production while our exports have either declined or stagnated. In the last 20 years, world tobacco production has doubled and our share of world tobacco trade has dropped by about 50 percent. U.S. tobacco exports have declined nearly 25 percent in the last five years. In the case of cotton, the U.S. share of world production last year fell to less than 12 percent of world production compared with more than half of global output in 1930.

In recent times, honey support prices, established at the statutory minimum of 60 percent of parity, have risen well above world market levels. As a result, U.S. imports increased from 9 million pounds in 1970 to about 110 million pounds in 1983. Meanwhile, U.S. ending stocks climbed from around 35 million pounds in the 1970's to 166 million pounds in 1983--a stocks-to-use ratio of 60 percent compared with only 12 percent just five years earlier. Also, over the last five years government acquisitions have gone from zero to an

estimated 115 million pounds. Effectively, domestic honey is now being sold to the Federal Government and is being displaced in the domestic market by less expensive imports.

Income Supports

Income transfers to farmers date back as early as the Agricultural Adjustment Act of 1938. This law directed the Secretary to make direct payments to producers of wheat and other "base" commodities (corn, cotton, rice, and tobacco) if and when funds were provided through appropriations. Then, during the 1960's, complying wheat producers received wheat certificates and direct payments determined by the difference between the market price and the announced value per bushel of the wheat certificate on a designated portion of their production. These programs were forerunners of the current target price/deficiency payment program.

The current target price/deficiency payment program grew out of policies set forth in the early 1970's. By 1960, accumulation of commodity stocks had reached record levels--over 2 billion bushels of corn and 1.5 billion bushels of wheat. This was a direct result of setting price supports above market-clearing levels and the inability to control production through voluntary programs. It was envisioned that separating price and income support objectives of commodity programs would permit reductions in loan rates to increase exports, strengthen demand for grain domestically, eliminate surpluses, and reduce the need for often ineffective and complicated production control programs. The nonrecourse loan rate was to provide a price floor and would become operative only with excessively large crops or extremely slack demand. Farmers' incomes were to be supported at minimum levels whenever prices fell below target levels.

The Agricultural and Consumer Protection Act of 1973 introduced the present concept of target prices and deficiency payments. Under that legislation, target prices were established for wheat, cotton, corn, barley, and sorghum. Since 1973, the target price/deficiency payment program has been extended to include rice and oats. Deficiency payments are paid to producers whenever the announced target price is above the average farm price for a designated portion of the marketing year. The deficiency payment rate equals the minimum difference between the target price and the average farm price or the loan rate and, thus, generally varies inversely with the level of market prices. Only producers participating in announced acreage reduction programs are eligible to receive payments, with total cash payments to any single producer currently limited at $50,000 per year.

There were some good reasons why the target price/deficiency payment concept was originally established. But past experience indicates that the target price/deficiency payment program has had several unintended consequences such as raising land prices and production costs, reducing our competitiveness in world markets, and encouraging farmers to expand acreage even under surplus conditions. And, some complain about such program benefits going to large as well as small producers without regard to need.

Let us look at the results. The inflationary period of the 1970's taught us that basing target prices on costs of production can add fuel to an inflationary spiral. Including land cost in the determination of target prices can lead to an increase in land prices affecting production costs which, in turn, leads to a further increase in target prices. Higher target prices then lead to higher land prices as farmers attempt to profit from higher target prices by expanding acreage, either by purchasing or renting more land.

But even when target prices are not directly tied to land prices or costs, they still may contribute to an increase in land prices. For example, some argue that the target price may cover total costs for some producers but not for others since production costs vary among producers in different regions of the country. If target prices more than cover production costs for some geographically concentrated group of farmers, land prices and production costs in that location will be bid up, with the benefits going to existing landowners and not to new entrants or renters.

Target prices set above market-clearing levels, such as those mandated in the 1981 Farm Bill, are an effective guarantee that acreage reduction programs will be required. The current target price/deficiency payment program, by itself, could cost U.S. taxpayers in excess of $10 billion annually given the existing differential between target prices and loan rates. Faced with a large budget exposure and political pressure resulting from spending in excess of $10 billion annually on deficiency payments, not to mention the costs of CCC loans and purchases, storage payments, and export programs, there is no choice but to implement production control programs in an effort to enhance farm prices.

This situation has led to real problems for U.S. agriculture. For example, as target price escalations force greater acreage cutbacks and as prices increase, our foreign competitors are sent a signal to increase their output and take over our markets. As our markets dwindle, even larger acreage cutbacks are needed. For example, even after coming off of a 1983 rice crop that was dramatically reduced because of the payment-in-kind program, analysis suggests that rice stocks at the end of the 1985 crop year will likely build back to excessive levels even with a 35-percent total acreage reduction program and over 90-percent participation in the announced program. And even

then, the price of rice will likely not move much above the loan rate with such a stock build-up.

Unfortunately, the rest of the world can see the same forces at work. They see price floors to protect our producers from downside price risk and they see budget pressures that ensure U.S. production controls in order to push market prices higher. Reduced risk, smaller competing U.S. supplies, and potentially higher market prices are an open invitation to competitors to increase their production.

Moreover, the facts seem to suggest that high target prices encourage our farmers to increase their acreage bases and yields on acres remaining in production. If loan rates are covering 98 percent of average variable costs, then target prices well above loan rates are providing a large incentive to build bases simply for the purpose of receiving benefits from future government programs. Some farmers may even expand acreage by plowing up highly erodible land. For example, cropland in the Delta and Southeast has been increasing at the rate of 5 percent per year since 1980.

The commodity programs may also be stimulating an unwise depletion of our water resources. Irrigation has nearly doubled in the last 3 decades and is now practiced on over 50 million acres. The largest increase recently has occurred in the Northern Great Plains through the use of ground water. Since Federal irrigation investments have steadily declined since the mid 1960's, much of this expansion is coming through private investments. One of the primary factors encouraging this irrigation development appears to be the price and income support programs, since the major use of the newly irrigated land is for corn, cotton, wheat, and other program crops. From 1929 to 1978, 60 percent of the increase in irrigated acreage occurred on the principal

program crops. We are mining and depleting our water resources to produce more of the agricultural products for which we already have burdensome supplies.

The Agricultural Adjustment Act of 1985

Target prices must be set at levels that do not interfere with the signals from the marketplace. Otherwise, they can lead to increased production costs, reduced competitiveness, increased production abroad, and larger surpluses in the long run. The Agricultural Adjustment Act of 1985 proposes a transition from the current rigid levels of income and price support to levels tied to market price movements. The loan rates would be established at 75 percent of a three-year moving average of market prices. This will allow the loan rate to adjust according to changes in supply and demand and keep support prices below market-clearing levels. Target prices will be phased down over a five-year period. For the 1986 crop year, the target prices would be 100 percent of the three-year moving average of market prices. For the 1987 crop year, it would be 95 percent of the average, for 1988 it would be 90 percent, and by the 1991 crop year the target price would be 75 percent of the three-year moving average.

No minimum loan rates or target prices are proposed. Rigid price floors would hinder the effectiveness in adjusting our price and income supports to current economic conditions. Rapidly emerging technologies could sharply increase yields per acre, greatly expand output, and sharply reduce per unit cost. Farmers would then have the opportunity to expand market volumes at lower prices and to increase profits if loan rates were more flexible. Without this flexibility, the productivity gains would simply end up in government

stocks through loan forfeitures. At the same time, prices could remain under pressure from continued weak demand. This could signal a reduction in planted area unless loan rates hold the prices above market-clearing levels.

In either case, the inflexibility would lead to building stocks, loss of export markets, and stagnation in resource adjustments. The AAA of 1985 provides for a price and income support policy that will not restrict the growth of this Nation's number one industry, but will enhance it. The price support policy is flexible and geared for a market susceptible to rapid changes in world economic conditions, weather, and new technologies.

Acreage Reduction Programs

Acreage reduction programs (ARP's) have been used since 1933 to help reduce production and improve prices and income. They have taken many different forms, including soil banks, acreage reserves, conservation reserves, voluntary and paid diversions, set-asides, and payment-in-kind (PIK). Some of these programs have restricted acreage use for a single year, others for many years. While experience varies somewhat by specific program, ARP's have generally proven to be a costly and inefficient way to reduce production. Further, to the extent that ARP's have reduced production, they have also contributed to losses in U.S. export market share by concentrating a disproportionate share of adjustments for periodic surpluses in the United States.

Since the 1930's, acreage reduction programs such as allotments were used in an attempt to control production. Such programs seldom achieved their intended results. Farmers rapidly increased yields on allotted acreage and overproduction continued to be a chronic problem. By 1960, surplus stocks and large government outlays had generated considerable pressure for reform.

For most commodities, that reform took one of two paths: (1) continued high price supports with tighter controls on production that included both acreage allotments and marketing quotas, or (2) separation of price and income supports with voluntary acreage reduction programs.

Peanuts and tobacco pursued the first path. In 1930, the United States harvested 1.1 million acres of peanuts. By 1980, the United States harvested 1.4 million acres of peanuts, up only slightly from 1930. Per capita production of major peanut products has remained virtually unchanged since the mid-1960's. Cheaper peanuts are available, but only for the export market or crushing.

For tobacco, U.S. production has declined by about 10 percent over the past 20 years, while world production has doubled. Meanwhile, our share of world tobacco trade has dropped by about 50 percent due to the high and escalating support prices that have made the U.S. less competitive in world markets. Pressures are now mounting to control cheaper imports.

There is substantial evidence that the tight controls on these commodities did not benefit all farmers; instead, the economic value of the quotas and allotments has been captured by landowners in increased land values and higher leases. Recent data indicate that there are approximately 550,000 tobacco allotments. While there are no precise figures available, available estimates suggest that around 150,000 farmers actually produce tobacco. Most of these farmers are paying the allotment holders for the right to produce tobacco under the program. The value of the allotment is a production expense for farmers who are not allotment holders, but it is a cost that is not related to the actual cost of producing tobacco.

The second path was chosen for most other major commodities. However, the facts suggest that voluntary acreage reduction programs have been largely ineffective for a number of reasons.

First, farmers who choose not to participate in the voluntary acreage reduction programs tend to expand acreage for two reasons: (1) they hope to capitalize on the higher market prices expected to result from the programs and (2) they wish to increase the size of their base for the purpose of future programs. Experience with wheat provides a good example. In 1981, when no acreage reduction program was in place, 81 million acres of wheat were harvested. In 1983, about 28.2 million acres of wheat base were idled; yet, the harvested acreage was only 20 million acres less than in 1981. While this still represented a 25-percent reduction in harvested area, 1983 production was only 15 percent smaller than the 1981 crop due to higher yields.

Some observers have suggested that tightening up the rules and regulations for the voluntary acreage reduction programs would make them more effective. Cross-compliance (authorized in the Agricultural and Food Act of 1981 for use with set-aside programs) and offsetting compliance are usually suggested. Cross-compliance requires a producer to participate in all acreage reduction programs for which he or she is eligible in order to obtain commodity program benefits on any one of them. Offsetting compliance requires that farmers with multiple farm units participate in the acreage reduction programs on all units to be eligible for program benefits on any one unit.

Cross-compliance, offsetting compliance, or any other measure that would tighten up the acreage reduction programs, however, are almost always met with strong opposition by some in the Congress. In 1980, producers were supposed to keep plantings of all program crops within a historically determined "normal crop acreage" (NCA) to receive program benefits. When this measure started to really take effect, the Congress mandated that producers be allowed to receive deficiency payments even when plantings exceeded the NCA. More recently, the Congress has required that summer fallow be counted as conservation use acres (CUA), and that the CUA rules for 1984 crops be no more restrictive than in 1983, when some would say that they were already fairly liberal. While it may be possible to tighten up such programs, it seems the more appropriate question is whether it is realistic to expect such rule changes to stay in place very long.

Second, about 12 percent of U.S. farms now market about two-thirds of all farm products. Thus, the participation of large units in such acreage reduction programs is important. However, the law limits the amount of deficiency and diversion payments that an individual may receive to $50,000 per year. The payment limitation therefore makes participation less attractive

to large units, as the benefit to be gained seldom outweighs the potential value of the foregone production.

A third reason that voluntary acreage reduction programs are ineffective is increased yields on acres remaining in production. When a reduction program is in effect, farmers leave their best acreage in production, and intensify cultivation on that acreage. Research shows that for every 10 percent of acreage base idled, average yield on the remaining acres increases 3.5 percent for cotton, 3 percent for corn, 2 percent for wheat, and 1 percent for grain sorghum. Rapid gains in technology continue to improve overall yields--current corn yields are 17 percent higher than 10 years ago--and new cropping rotations, such as wheat and soybean double-cropping, continue to be adopted.

When farmers invest in more fertilizer, pesticides, irrigation water, and other inputs in an attempt to circumvent the intent of acreage reduction, a more capital intensive and costly structure of production results. These higher costs continue to exacerbate the cost-price squeeze while reducing our competitive position in world markets. The higher cost structure leads farmers to perceive the need for higher income supports (target prices). If the higher income supports are implemented, the concern turns toward budget exposure and adds pressure for more acreage controls, perpetuating the cycle.

As the United States unilaterally reduces acreage, other exporting countries expand their acreage and market shares. In fact, since the United States has often artificially reduced supply in periods of reduced prices, a disproportionate share of the adjustment to what is often a world oversupply problem has been concentrated in the United States. The ARP's have also raised world prices. This combination has encouraged competing countries to

increase their production and exports at the same time that U.S. producers are being encouraged to reduce production and relinquish export share.

American farmers now depend upon foreign customers to buy about 60 percent of their wheat production, 45 percent of their soybeans and rice, and over 50 percent of their cotton. The United States accounts for nearly half the world's grain trade and three-fourths of the soybean trade. When the United States attempts to adjust supply relative to demand through acreage reduction programs, our competitors do react, and it is reflected in their production decisions for certain major commodities. As an example, our major wheat competitors expanded their acreage by 8 percent from 1981 to 1983 while we unilaterally reduced our acreage by nearly a fourth in order to enhance farm prices and reduce budget exposure. Over this period, the U.S. share of world wheat trade fell from 44 to 35 percent while our major competitors increased their share from 52 to 60 percent. Furthermore, the Canadians, who have steadily expanded their production, openly expressed their displeasure when we lowered the wheat loan rate for the 1984 crop. Other countries have expressed similar concerns.

Rice and cotton are other examples of commodities where the combination of our support levels and acreage programs are reducing our share of world markets. For instance, in the past three years the volume of U.S. rice exports has declined a third while our major competitor, Thailand, has increased its exports by over a third. It is not surprising that Thailand has now replaced the United States as the number one exporter of rice. In addition, for cotton we have witnessed substantial growth in world production while we have restricted our acreage and allowed our exports to decline or stagnate.

The U.S. share of world cotton production last year fell to less than 12 percent of world production compared with more than half of global output in 1930.

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Our long history with the use of acreage reduction programs has clearly demonstrated that such programs lead to a smaller, less competitive agricultural sector. We have stifled the growth in some commodity areas with tight acreage and production controls. In other areas, we have perpetuated a continued erosion of our world market share.

Since acreage programs have become deeply embedded in the economic structure of agriculture, it would be inappropriate to eliminate them immediately. The AAA of 1985 proposes to phase out the acreage reduction programs over a period of 3 years to provide an orderly transition within the commodity sectors. This transition also serves notice to the rest of the world that the United States is no longer willing to bear a disproportionate share of the supply adjustments for the world nor is it willing simply to withdraw from the international marketplace.

Foreign Response to Changes in U.S. Agricultural Policy

A major change in U.S. agricultural policy will produce two types of reactions from foreign nations. First, there is the impact of the U.S. policies upon world market prices. If world price signals are not prevented from being transmitted across national borders, prices in foreign countries change in response to movements in world market prices. Those movements in foreign internal prices then induce shifts in foreign production and consumption patterns. Second, changes in U.S. policy can lead other nations to alter their policies, thereby sending different signals to their producers and consumers.

Presently, the nonrecourse loan program and corresponding acreage reduction programs operated by the United States help to support world market prices near U.S. loan rates and above market-clearing levels. Under these circumstances, a reduction in the level of loan rates would lower world market prices. Foreign prices would also decline, depending on the extent to which world price movements produce a change in internal prices. In the absence of any changes in other market factors, lower prices would reduce foreign production and increase consumption, thereby reducing agricultural exports by our competitors, increasing foreign imports, and increasing U.S. agricultural exports.

The magnitude of the increase in U.S. exports will depend on the degree to which changes in world prices are mirrored by changes in foreign internal prices. Currently, this transmission varies greatly by country and by commodity. Soybeans, for example, are comparatively freely traded; hence, changes in world prices of soybeans are reflected in changes in internal prices. The transmission of coarse grain prices is more restricted, but

the major U.S. market, Japan, does permit coarse grains to be imported freely for use in livestock feed. Price transmission in the world wheat market is limited. Virtually all major importers--Japan, the centrally planned economies, and many developing countries--completely insulate their internal wheat prices from movements in world wheat prices.

Two major wheat-exporting countries--Australia and Canada--use marketing boards and price pooling. These institutions slow, but do not prevent, world price movements from being reflected in internal price adjustments. Producers in these countries receive an initial payment from the marketing boards for their wheat. Deliveries are then pooled and sold in domestic and world markets. If the receipts from the pool exceed board operating costs, the surplus monies are returned to producers, but generally at least a year after harvest. If the pool incurs losses, the board absorbs the loss. The lowering of world prices would force either a lowering of payments to farmers or increased absorption of losses by the boards.

The European Community (EC) and Argentina are the two remaining major competitors in the world wheat market. The EC fixes internal support prices well above world market levels. These support prices are unaffected by world price changes; instead, the EC adjusts its compensatory export subsidy to counteract world wheat price changes. Lowering the U.S. loan rate for wheat would greatly increase the subsidy required for the EC to be competitive, causing program outlays for the Common Agricultural Policy (CAP) to increase even further. With the CAP already under intense pressure from its growing costs, a drop in the U.S. wheat loan rate would likely force some change in

the existing system. If Argentina held its export taxes constant, a lowering of the world price would lead to lower internal prices, hence production would fall and internal use would rise.

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While the lowering of price support levels proposed in the Agricultural Adjustment Act (AAA) of 1985 will increase the pressure for changes in the farm policies of both our competitors and importers, this action is complemented by an aggressive stance with respect to market access. The agricultural trade title of the AAA of 1985 serves notice to the world that as the United States moves its domestic farm policies in a more market-oriented direction, we expect the rest of the world to significantly reduce or eliminate the unfair trade practices that have limited our market access or eroded our market shares. A continuation of such policies would result in actions by the United States to protect our position in the marketplace.

Japan and the EC would change their agricultural policies over time in response to the more market-oriented U.S. policy. Current policies reflect a difficult-to-change political consensus among a wide range of national and private interests and change would be gradual over the 5-year period. Although their domestic agricultural policies have trade effects, those policies were selected primarily to redistribute income among domestic producers, consumers, and taxpayers. The EC would likely leave support prices at current levels for the present, but would need to increase its export subsidy, as world wheat prices fell, to maintain exports. Consequently, EC budget outlays for wheat support programs would rise. Higher agricultural budget outlays by the EC would likely lead to a reduction in EC support prices and a moderation in its agricultural policies over time.

So far, the EC has resisted major changes in the CAP despite increased budgetary pressures. However, the high value of the U.S. dollar relative to EC currencies has recently made the EC more solvent and reduced the pressure for policy reform. It does this by making EC commodities more competitive in both domestic and third-country markets and narrowing the differences between world and EC prices, thus reducing the subsidies paid to EC exporters. The budget pressure from reduced world prices coupled with a clear U.S. export policy stated in the AAA of 1985 will, however, likely bring a major re-examination of EC policies.

The other major competitors would change policies in response to a more market-oriented U.S. agricultural policy. Australia would respond to the change by gradually lowering its internal farm prices. Hence, wheat production would be reduced, while domestic use would rise. Both lower world and internal prices would discourage Australian exports. The Canadian reaction would likely be, at first, to slightly raise producer support prices and, perhaps also, prices at flour mills. Wheat exports by Canada would expand as the Canadians retaliated with price reductions to preserve their market share. However, over a 5-year transition period, the Canadian Wheat Board would probably have to adjust its policies and prices relative to world levels to maintain a sound financial position. Brazil and Argentina face such large demands for hard currency that it is unlikely that exports from those countries would drop. However, further expansion would be limited by the reduced economic incentives and by the more competitive U.S. agricultural products.

Clearly, each commodity has a distinctive market environment conditioned by the nature of competitor and importer policies. As a result, the AAA of 1985 will have different impacts on different commodities:

Wheat

During the 1975-83 period, the U.S. share of the world wheat market fluctuated in the range of 38 to 48 percent. The major foreign competitors--Argentina, Australia, Canada, and the EC--have collectively accounted for nearly all of the remaining world trade. The competitors, particularly the EC, have made significant inroads in recent years. The EC's share has roughly doubled from 8-9 percent in the mid-1970's to its present share of 16-18 percent.

The United States currrently holds a 39-percent share of the world wheat market. Record exportable supplies in many competing nations have put pressure on world prices and intensified competition. The forecast for the 1985/86 market year indicates that the U.S. share may fall to 36 percent while the competitors' share rises to 58 percent.

Under the AAA of 1985, total wheat trade will expand significantly in response to lower prices throughout the transition period. U.S. wheat exports are expected to be highly competitive in this market. U.S. exports are likely to rise steadily to recapture 43-45 percent of a growing world market by 1991/92. While the competitors' exports will also increase, their market share will decline.

Coarse Grains

The U.S. market share in recent years has been about 60 percent (excluding intra-EC trade), down from over 70 percent in 1979/80. Since the early 1980's, Argentina has significantly increased its role as a major coarse grain exporter with about 13 percent of the world market. Competition from the European Community also increased substantially--and it will become a net exporter in 1984/85.

U.S. coarse grain exports in 1984/85 are forecast at 60 million metric tons with large USSR corn purchases accounting for most of the gain. Competitor exports in 1984/85 are forecast to be about 1 million tons lower than a year earlier as the bulk of the increase in world demand has gone to the United States. The competitor share of the world market for the year is about 24 percent.

Under the AAA of 1985, U.S. sales are anticipated to increase by about 13-15 million tons as world trade expands in response to lower prices. The United States is expected to take about 63-65 percent of this larger market while major competitors account for 25 percent.

Soybeans

The U.S. share of world soybeans exports dropped from 93 percent in 1970 to around 83 percent in the early 1980's. The major competitors, Brazil and Argentina, rapidly expanded soybean output and exports, reaching nearly 13 percent of the world soybean trade in the early 1980's.

Part of the decline in U.S. soybean exports is attributable to unfavorable exchange rates and weak demand for meat. While our competitors' share of soybean exports have increased, their tax policies encouraged even more gain in meal exports by applying lower taxes to meal exports than to soybean exports. Competitor nations will account for nearly half of world soybean meal trade in 1984/85, compared with only 10 percent in 1970.

Under the AAA of 1985, the United States will expand its share of world soybean trade as lower prices at the start of the period improve world demand. Demand growth in the future will be heavily influenced by the nature of the price relationship between soybean meal and grains.

Rice

The U.S. share of world rice exports has been on the decline during the past decade. The market share has dropped from 24 percent in 1975 to 17 percent in 1984, while the major foreign competitors have raised their share from 24 percent to 51 percent.

The AAA of 1985 is expected to increase the quantity of U.S. rice exported and stop the decline in U.S. market share. With more reasonable prices and plentiful supplies of high-quality rice from the United States, some Asian and African nations can be expected to purchase greater quantities of the preferred high-quality varieties.

Cotton

In the 1970's, U.S. cotton exports showed an upward trend, both in absolute terms and as a percentage of world exports. However, in the early 1980's this trend was reversed--market share fell from 40 percent in 1979/80 to only 27 percent in 1982/83. With production shortfalls in several exporting countries in 1983/84, the U.S. share rebounded to around 35 percent of world exports.

The United States will continue to be the world's major cotton exporter in 1984/85. However, large foreign supplies and a deterioration in U.S. price competitiveness may reduce our share to 30-32 percent of world cotton trade. The major competitors' shares may total about 40 percent. With the improved crop outlook, foreign ending stocks will be large in the current year.

A more market-oriented approach in the United States, with the corresponding lower loan rates, would signal a drastic change in U.S. policies to foreign producers. The lower loan rates would indicate that U.S. producers will place more emphasis on export markets. This will result in lower production from foreign competitors and an increase in U.S. market share.

The Dairy Purchase Program and a Direct Payment Program

The Dairy Price Support Program, which was established in 1949, has supported the milk price received by farmers through purchases of butter, nonfat dry milk, and American cheese. Purchase prices are set at levels designed to enable manufacturers to pay farmers at least the announced support price for milk.

The original purpose of the price support program was to stabilize milk prices received by dairy farmers and assure consumers of an adequate and wholesome supply of milk and other dairy products at reasonable prices. However, the program has periodically been used to move prices above market-clearing levels and has resulted in high dairy product purchases by the Commodity Credit Corporation at substantial taxpayer cost. For example, program costs reached a record $2.6 billion in the 1982-83 marketing year. This amount equaled about 13 percent of total cash receipts from farm marketings of milk and cream--and it averaged of about $13,000 per commercial dairy farmer. However, since these government expenditures were for processed dairy products, farmers did not receive the full amount.

Increased returns to individual farmers from guaranteed milk prices depend on the volume of individual farm marketings. Since there is a wide range in size of dairy farms, there is a wide difference in program benefits. In 1982, 18 percent of the dairy farms had fewer than 20 cows and received 2 percent of the total revenue from dairy sales. In contrast, 10 percent of the dairy farms had 100 or more cows and received 40 percent of the total revenue from dairy sales.

Benefits of price supports are skewed toward larger farms. For example, if the support price raised the farm price by 50 cents per hundredweight, the annual gross revenue would increase about $600 for a farm with 10 milk cows, but about $30,000 for a farm with 500 milk cows.

Milk price enhancement and program benefits generally are capitalized in the long run into asset values such as dairy cow prices, land suited to dairying, and equipment. The capitalization of dairy program benefits into farm asset values increases milk production costs, and makes dairying less competitive. It increases the value of assets of established dairy farmers, but increases the costs of new entrants and those who rent.

When dairy price supports are used to raise milk prices above market-clearing levels, milk and dairy product prices to consumers increase, giving producers a signal to expand milk production. Meanwhile, farmers receive these distorted price signals and put more resources into milk production. This results in excessive investment in the dairy sector leading to surpluses and increased government costs.

Since the price support for milk is achieved through government purchases of storable milk products, price support policy has a large impact on the manufactured dairy products industry. In 1983, the Commodity Credit Corporation (CCC) purchased 70 percent of the nonfat dry milk production, nearly one-third of total butter production, and over one-fourth of the American cheese production. When it is profitable to manufacture dairy products for sale to the government, and processing plants strive to operate near capacity to reduce manufacturing costs, incentives for new product development and merchandising are greatly reduced.

For a dairy purchase program to operate effectively, market outlets must be available within a reasonable time for the products purchased by the CCC. In the 1950's and 1960's, domestic food donations and foreign assistance programs provided outlets for most of the dairy products the Government bought. However, when food stamps replaced direct food distribution in the 1970's, the school lunch program became the only sizable domestic outlet until late 1981. Direct distribution was resumed on a limited scale

that year. In addition, the Reagan Administration initiated butter, cheese, and nonfat dry milk donation programs about the same time. These programs have distributed over a billion pounds of products since FY 1982.

The Agricultural Adjustment Act of 1985

The Agricultural Adjustment Act of 1985 proposes a system of direct payments to farmers that would avoid the costs and adverse effects of supporting milk prices by government purchases and the problems of storing, transporting, and disposing of surplus production. This direct payment program would be phased in over a two-year period in order to allow the dairy industry time to adjust. The conversion would be accomplished by first making the support price for the current purchase programs more market-oriented. Then, the support price would remain below the market price, except possibly during flush milk periods or very extreme supply/demand conditions. At that point, since little or no dairy products would be sold to the government, a purchase program would no longer be needed.

A direct payment (or deficiency payment) program would have many of the features of the target price approach used in major crop support programs since the early 1970's. Payments would be made directly to individual producers to the extent that prevailing market prices fell below the designated target price levels. Farmers would get direct payments based on their current production.

The following describes the advantages of a direct payment program in comparison with the current purchase program:

- It would have a greater market orientation with market-clearing prices reacting to changing supply and demand.
- It would provide dairy producers with direct income support.

- o Wholesale dairy product prices would adjust up and down to market-clearing levels.
- o Consumer milk and dairy product prices and expenditures would be more competitive with other foods and substitutes.
- o Commercial use of dairy products would increase.
- o The resources of some cooperative and proprietary manufacturing firms would be channeled from producing butter, powder, and cheese for USDA purchase to developing and merchandising new products for the commercial market.
- o There would be no government dairy product purchase, storage, and disposal costs.
- o Government dairy program expenditures would go directly to dairy farmers.
- o Dairy price policy would be linked more closely to other commodity programs and overall U.S. agricultural policy.

Market Access and Export Expansion Policies

To reverse recent declines in the volume of U.S. agricultural exports, U.S. commodities must become more competitive in international markets and efforts should continue to expand long-run foreign demand. However, changes in U.S. domestic policies designed to increase the competitiveness of U.S. exports may not lead to an increase in exports if our products do not have free and equitable access to markets abroad and if countries do not have the required foreign exchange to import from the United States. Thus, foreign market access and foreign purchasing power are important determinants of the effectiveness of policies designed to improve U.S. competitiveness. In addition, programs to develop markets in importing countries will help to increase U.S. agricultural exports by expanding foreign demand.

Policies to promote greater access to foreign markets would increase demand for U.S. agricultural products by lowering barriers to imports and increasing trade contacts. Removal of trade restrictions increases U.S. export demand by allowing U.S. products to compete on a more equitable basis in importing countries, and by reducing incentives for countries to produce their own commodities when they could be purchased more cheaply from us. Market access could be increased by trade negotiations to reduce restrictive trade practices.

The main issues of agricultural trade are the widespread use of quantitative restrictions and other non-tariff barriers to restrict agricultural imports, and the use of export subsidies. Non-tariff import barriers are more restrictive than tariffs because they insulate importing countries from world market price signals. For example, if international market prices drop, these prices may not be passed on to consumers and producers in importing

countries that use protectionist policies. Use of export subsidies allows competitor countries to unfairly undercut the prices offered by U.S. exporters.

The United States' two major agricultural trading partners, the European Community and Japan, use non-tariff import barriers--particularly variable levies and quotas--to limit access to their markets. They also use subsidies to expand export sales. However, non-tariff barriers are also used by many developing countries to limit free access to their markets, especially for wheat and rice. Many countries, especially developing and centrally-planned countries, make their import purchases through marketing boards that have monopoly power over import decisions.

Demand expansion programs are primarily designed to raise the level of U.S. agricultural exports by easing financial constraints in importing countries and by helping U.S. producer groups and other interested parties to develop overseas markets. Credit programs provide dollar purchasing power for U.S. commodities within countries that would otherwise not be able to buy because of foreign exchange problems or income constraints. Short-term credit programs provide credit to countries that have cash flow problems, whereas long-term credit programs such as Title I of Public Law 480 target credit to low-income developing countries with chronic foreign exchange problems. Market development expenditures expand demand for agricultural exports over the longer term through a variety of techniques that include: advertising and other product promotion activities; technical assistance to improve productivity in industries such as baking, milling, or livestock feed compounding; and providing information on product quality and pricing to importers.

Market development programs differ from credit programs in their impact on U.S. export demand. Credit programs facilitate moving U.S. commodities through export channels immediately while helping to build long-term markets for U.S. exports. Market development programs promote long-run demand for exports through investment in economic development that will permanently alter foreign demand for imported agricultural commodities.

Agriculture Adjustment Act of 1985

The Agriculture Adjustment Act of 1985 proposes a program that would allow U.S. producers to compete efficiently in world markets. All the commodity programs in this bill are designed to minimize distortion of market signals to producers and to free producers from current restrictive laws. The bill's export programs would further strengthen the U.S. position.

The export title of the bill encompasses three broad objectives that have been central to the export doctrine of the Reagan Administration for the past four years. First, the bill clearly and unequivocally restates the commitment that no restrictions or embargoes will be imposed on agricultural products for short supply or foreign policy reasons, except in extreme situations and only then as part of a broader embargo.

Second, the bill requires that the U.S. enter into multilateral negotiations with our key trading partners to implement a program of reduction in restrictive trade practices in the agricultural sector. As a part of the process, the Secretary of Agriculture would determine which countries are adversely affecting trade in specific agricultural products through trade barriers or unfair trade practices, and assess the impacts of these factors on the export of U.S. products. The U.S. Trade Representative would perform a similar analysis. Based on their findings, the Secretary and the U.S. Trade Representative would begin negotiations to eliminate these major trade

barriers or unfair trade practices. Should such negotiations fail to progress satisfactorily, the Secretary and the U.S. Trade Representative would be required to propose actions that would (1) offset the effects of trade barriers and unfair trade practices and (2) secure further progress in the negotiations. Such actions could include, but not be limited to, greater use of intermediate and long-term credit, special sales of CCC stocks, export or export credit subsidies, and bilateral trade agreements.

Also, the U.S. Trade Representative would be required to recommend a plan to phase out by the end of FY 1990 all major agricultural trade barriers on foreign products entering the U.S. market, in return for comparable action by foreign countries.

A third objective of the export title is to maintain adequate funding for export promotion programs. Export credit guarantees offered under the GSM-102 program would be required to be maintained at a level consistent with the needs of importing countries for U.S. agricultural commodities. The appropriate level of credit would be determined by the credit-worthiness of potential borrowers, as well as the degree to which such credit would be likely to increase short-term demand for U.S. agricultural exports, build long-term markets or improve the competitive position of U.S. agricultural exports in world markets. The P.L.-480 program would be reauthorized, and the Secretary of Agriculture would be required, to the extent practicable, to establish multi-year programming to better achieve U.S. program objectives.

The export title also restates the commitment of the United States to strong and effective market development programs. In support of this commitment, the Secretary would be required to evaluate the effectiveness of existing market development programs and to devise ways in which they might be improved.

Deficiency Payments Based on Season Average Prices

Under current law, deficiency payments for wheat, feedgrains, and rice are paid on the difference between the target price and the loan rate or the average market price for the first 5 months of the current marketing year, whichever is higher. Deficiency payments for upland cotton, however, are the difference between the target price and the loan rate or the calendar year market price, whichever is higher.

One rationale for deficiency payments based on market prices for only a portion of the marketing year was to permit payments to be distributed to producers when they need cash to purchase production inputs such as fertilizer, seed, and insecticides for the following crop year. However, with existing authority to make advanced deficiency payments, this basic rationale has less credibility.

Agricultural Adjustment Act of 1985

Under the Agricultural Adjustment Act of 1985, deficiency payments will be based on the difference between the target price and the higher of the loan rate and the season average market price. Producers' incomes will continue to be protected even when prices fall to the loan rate, thus providing income security to producers during times of extremely low prices. However, that protection will be based on the total marketings during the entire season, not on some fraction of total marketings.

Corn and wheat producers generally sell only slightly more than half their crop during the first 5 months of the marketing year. Thus, nearly 50 percent of marketings are not considered when payments are computed using

market prices for the first 5 months of the crop year. Rice producers generally market less than half of their crop during the first 5 months of the crop year, so payments are determined by prices received on only a fraction of the current year's marketings. Upland cotton deficiency payments are determined using the calendar year average market price, which overlaps the previous crop year (August 1-July 31) by 7 months and the current crop year by 5 months. On average, upland cotton producers market only slightly over 50 percent of their production in the first 5 months of the crop year. As a result, current year upland cotton deficiency payments are calculated using market prices received on about 50 percent of the current year's marketings and about 50 percent of the previous year's marketings.

Marketing year 1982/83 provides a good example of the bias that can result from basing payments on market prices for the first 5 months of the crop year. For wheat, the season average price was \$3.55 per bushel, while the market price for the first 5 months was \$3.34 per bushel. The difference was even more pronounced for corn--the season average market price was \$2.68 per bushel while the market price for the first 5 months was \$2.24 per bushel. The 1982/83 rice season average price equaled \$8.11 per hundredweight (cwt.) while the 5-month average price was \$7.69 per cwt. And, the season average price for upland cotton (59.1 cents per pound) greatly exceeded the calendar year average price for 1982/83 (55.2 cents per pound).

The reverse situation (market prices for the first 5 months that exceed the season average price) could occur in a year following a short crop when prices are the highest at harvest. Large differences occurred for rice and

upland cotton following the 1980 drought. The 1981 rice season average price of $9.05 per cwt. was substantially below the 5-month average price of $10.40 per cwt.--a difference of $1.35 per cwt. For upland cotton, the season average price equaled 54 cents per pound while the calendar year average price was 63.2 cents per pound. Table 1 provides a brief history of the relative price movements of the two series.

As we move to a more market-oriented farm policy, it is important that incentives provided through government programs reflect market conditions and at the same time protect farmers from extreme price movements. Under the Agricultural Adjustment Act of 1985, payment levels will correspond to movements in market prices, thereby insuring that payment levels accurately reflect the real economic environment facing farmers rather than short-term intraseasonal fluctuations in prices.

Wheat, Corn, Cotton, and Rice Support Levels and Prices, 1977-83

	1977	1978	1979	1980	1981	1982	1983
Wheat (Dol./bu)							
Target price	2.90	3.40	3.40	3.63	3.81	4.05	4.30
Loan rate	2.25	2.35	2.50	3.00	3.20	3.55	3.65
Deficiency payment rate	.65	.52	—	—	.15	.50	.65
5-month average price	2.10	2.88	3.83	3.89	3.66	3.34	3.51
Season average price	2.33	2.97	3.78	3.91	3.65	3.55	3.54
Corn (Dol./bu)							
Target price	2.00	2.10	2.20	2.35	2.40	2.70	2.86
Loan rate	2.00	2.00	2.10	2.25	2.40	2.55	2.65
Deficiency payment rate	—	.03	—	—	—	.15	—
5-month average price	1.89	2.07	2.37	3.11	2.43	2.24	3.15
Season average price	2.02	2.25	2.52	3.11	2.50	2.68	3.20
Upland Cotton (cents/lb.)							
Target price	47.80	52.00	57.70	58.40	70.87	71.00	76.00
Loan rate	44.63	48.00	50.23	48.00	52.46	57.08	55.00
Deficiency payment rate	—	—	—	—	7.67	13.92	12.10
Calendar year price	56.20	55.10	58.90	73.30	63.20	55.20	63.90
Season average price	52.10	58.10	62.30	74.40	54.00	59.10	66.10
Rice (Dol./cwt.)							
Target price	8.25	8.53	9.05	9.49	10.68	10.85	11.40
Loan rate	6.19	6.40	6.79	7.12	8.01	8.14	8.14
Deficiency payment rate	—	.78	—	—	.28	2.71	2.77
5-month average price	9.08	7.75	9.87	11.30	10.40	7.69	8.63
Season average price	9.49	8.16	10.50	12.80	9.05	8.11	8.50

Payment Limitation

The original concept of a payment limitation was initiated in the Soil Conservation and Domestic Allotment Act of 1936. However, the payment limitation as we think of it today was not invoked until the Agricultural Act of 1970 and has continued as a part of U.S. farm policy since that time.

The purposes of the payment limitation are to target farm income supports more toward middle and lower income farmers, and to reduce Federal outlays. At the same time, this more equitable distribution of farm benefits limits the capitalization of program benefits by large operators into even larger operations.

Payment limitations also tend to curb the artificial inflation of farmland prices that occurs when farm program benefits are available (a process called "capitalization"). In fact, many believe that the large increases in farm program benefits in the 1970's helped push farmland prices to artificially high levels.

At the time the payment limit was first introduced, it was evident that farms were rapidly becoming larger and fewer in number. From just 1950 to 1970, the number of farms declined nearly 50 percent and the average size grew from 213 acres to 374 acres. This trend has continued in recent years. Today the average size of a U.S. farm is 437 acres.

Currently, about 12 percent of the Nation's farms account for two-thirds of farm marketings. This group of large farms (with annual sales of over $100,000) has an annual average income of $82,000 per household--well above the national average for all households ($28,600). This group of farms, as a whole, is not in dire need of income support through program benefits.

However, this same group of farms has a growing impact on farm program participation and program effectiveness. According to the 1982 Agricultural Census, 2.4 percent of the corn growers produce over 21 percent of total

U.S. corn production; 2.2 percent of the wheat growers account for 22 percent of total production, 3.7 percent of the cotton producers account for nearly a third of the total output; and 3.5 percent of the rice growers account for 22 percent of the total rice crop. For each of these four crops, about 10 percent of the growers produce about half of the total production. Therefore, commodity programs designed to control supplies are affected when large operators decide not to enter the program due to the payment limitation.

The 1985 cotton program provides a good example of the possible impact of the payment limitation on program effectiveness. Based on the provisions of the 1985 cotton program, the expected deficiency payment, and the average farm program yield, it will take about 500 acres of cotton to reach the $50,000 payment limitation. According to the 1982 Agricultural Census, growers with over 500 acres of cotton account for about 60 percent of total cotton production. Thus, it is easy to see how the payment limitation would reduce program effectiveness if participation of large growers is reduced or they are allowed to plant other crops.

The effects of the payment limitation vary between commodities and regions of the country. For instance, rice and cotton farms are generally larger, on average, than corn and wheat farms and therefore are more likely to be affected by a payment limit. In 1982, U.S. rice growers planted an average of about 280 acres; cotton growers, 255 acres; wheat growers, 160 acres; and corn growers, 100 acres. If, for example, one-half of maximum deficiency payments are paid out for the 1985 program crops, about 45 percent of the 1985 rice crop and 43 percent of the cotton crop would be produced on farms subject to the $50,000 payment limitation, compared with only 2 percent of the wheat crop and less than 1 percent of the corn.

The impact of a payment limitation varies greatly between regions because of the differences in farm sizes and yields (see Table 1). For instance, program cotton yields in California are over 1,000 pounds per acre, and acreage averages about 440. This compares with a yield of less than 400 pounds in Texas and an average acreage of 280 acres. Again, using one half of maximum deficiency payments for the 1985 cotton program as an example, about 80 percent of the cotton in California would be grown on farms subject to the $50,000 payment limitation and only 20 percent in Texas.

The story is similar for other commodities. For instance, the program yield for wheat in Washington is nearly 48 bushels per acre and the average acreage is about 435 acres compared with a yield of about 25 bushels in Texas and an average acreage of only 225 acres. For rice, the program yield in California is about 6,500 pounds and the average acreage is 430 acres compared with a yield of 4,100 pounds in Louisiana and an average acreage of only 230 acres. The average dairy herd in Kentucky is less than 25 head with production per cow below 10,000 pounds per year compared with an average herd of over 200 head in California and average production per cow of over 15,000 pounds.

The Agricultural Adjustment Act of 1985

The focus of the 1985 Farm Bill is toward a more market-oriented agriculture and a phasing-out of acreage reduction programs that have been largely ineffective in the past. Without program requirements for acreage reductions, all producers are eligible for program benefits and the payment limitation becomes more important.

Limiting direct payments to farmers to $20,000 per operator in 1986, $15,000 in 1987, and $10,000 in 1988 and thereafter would insure payments reach those operators in greatest need of assistance. Deficiency payments would be

Table 1: Regional Differences Between Acreages and Yields 1/

Crop	State	Average Acreage	Average Yield/acre	Average Production
Corn (bu.)	Iowa	139	116	16,124
	Nebraska	189	104	19,656
	N. Carolina	46	96	4,416
	S. Dakota	138	67	9,246
	U.S. Average	98	107	10,534
Wheat (bu.)	Kansas	237	31.9	7,560
	N. Dakota	335	30.1	10,084
	Texas	225	24.2	5,445
	Washington	436	47.2	20,579
	U.S. Average	159	33.5	5.327
Cotton (bales)	California	437	2.19	957
	Mississippi	264	1.68	443
	Texas	278	.60	167
	U.S. Average	256	1.16	298
Rice (cwt.)	Arkansas	232	45.0	10,440
	California	429	64.7	27,756
	Louisiana	228	41.0	9,348
	Texas	450	47.4	21,330
	U.S. Average	282	47.9	13,508

1/ Based on the 1982 Agricultural Census.

the only direct payments authorized. The payment rate would be set equal to the difference between the target price, which would be set by formula, and the loan rate or the season average market price, whichever is higher. Total payments per acre to a producer would be this payment rate times normal yield.

The table below shows the effects of a $20,000 payment limitation, assuming that one-half of maximum deficiency payments are made. 1985 program provisions are assumed.

Crop	Program Yield/acre	Acreage Cutoff	Farms Affected	Share of production On farms affected
Corn	102.0 bu.	908	0.8 %	9.6 %
Wheat	36.4 bu.	848	3.9 %	29.0 %
Cotton	550 lb.	319	26.0 %	73.0 %
Rice	5,000 lb.	223	44.0 %	80.0 %

In periods of large production, growing stocks, and depressed prices, the payment limitation reduces the federal budget exposure. Once acreage reduction programs are phased out and all producers become eligible for program benefits, the possibility of large budget exposure becomes even greater. For instance, if all producers were eligible for a 50-cent payment on wheat based on U.S. production of 2.6 billion bushels, the budget exposure would be $1.3 billion. Assuming a 38-bushel average farm yield and a $10,000 payment limit, the budget exposure would be $1.06 billion. Thus, the budget exposure would be reduced by nearly a fifth, while only 7 percent of U.S. wheat farms would be affected by the $10,000 payment limit.

Payments to farmers have been limited since 1971. Unlimited payments are perceived as an unnecessary drain on the Treasury and as inequitable. From 1974 through 1983, deficiency payments cost a total of $6.8 billion. Payments varied widely. They were zero in three years, yet over $1 billion in five years. The largest amount paid was $1.7 billion in 1982. These payments have been highly concentrated, however, with 80 percent of the total payments received by only 30 percent of producers.

In 1981, compliance with an acreage reduction program was not required as a condition of eligibility for deficiency payments; hence, a large number of producers received payments. Nearly 1 million persons received about $1.1 billion in payments for six different crops.

Reducing the payment limitation to $10,000 would still provide small and medium-sized producers with direct income support while limiting direct payments to large farmers who do not need Federal assistance. In 1981, only 2 percent of producers would have lost some benefits had a $10,000 payment limit been in effect, but budget savings would have been nearly 20 percent. The effect would be slightly greater for commodities, particularly cotton, where larger operators are more prevalent. In 1981, a $10,000 payment limit would have affected 12 percent of cotton producers and would have reduced budget outlays to cotton producers by about one-third. For other commodities, a $10,000 limit would have affected less than 1 percent of all producers.

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